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**Business management**  
**Higher level**  
**Paper 2**

Friday 15 November 2019 (morning)

2 hours 15 minutes

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**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. Sassy**

Sassy, a partnership between fashion designers, produces clothes for teenagers. Capacity utilization is very high.

The partners are considering some strategic changes. After conducting research, they presented three options and outlined the costs and expected revenue. They also predicted that the economy would either improve or stay the same. The probability of the economy staying the same is 0.3.

The options, costs and expected revenue are given below:

**Table 1: Information relating to the three strategic options for change**

Options	Costs	Expected revenue
<b>Option 1:</b> Increase production capacity	\$200 000	\$300 000 (economy improves) \$250 000 (economy stays the same)
<b>Option 2:</b> Dissolve the partnership and sell Sassy’s brand name to a competitor	Not applicable	\$150 000
<b>Option 3:</b> Become a private limited company <b>and:</b>  (a) Stay with the current product range and production level  <b>OR</b>  (b) Develop a new product range of children’s clothes.	\$150 000 (legal costs)  No additional costs  \$170 000 additional cost	Not applicable  \$220 000 (economy improves) \$170 000 (economy stays the same)  \$550 000 (economy improves) \$450 000 (economy stays the same)

- (a) Describe **one** disadvantage for an organization of operating at high capacity utilization. [2]
- (b) Construct a fully labelled decision tree and identify the best option for Sassy (*show all your working*). [6]
- (c) Explain **one** limitation for Sassy of using a decision tree as a planning tool. [2]

**2. Mutombo Window Fans (MWF)**

*Mutombo Window Fans (MWF)* manufactures and sells window fans to wholesalers across eastern Africa. Although the business began small, it experienced rapid internal growth through aggressive, commission-based sales.

Currently, *MWF* sells 300 window fans per month. Each fan sells at an average price of \$100.



**Table 1: Forecasted fixed costs for 2020 (all figures in \$)**

Rent	36 000
Insurance	9 000
Salaries	19 000
Lease on equipment	48 000
Cleaning service	18 000

**Table 2: Variable costs per fan for 2020 (all figures in \$)**

Materials	55
Delivery	5

- (a) Define the term *internal growth*. [2]
- (b) (i) Calculate, for *MWF*, the break-even level of output for 2020. [2]
- (ii) Construct a fully labelled, to scale, break-even chart for *MWF* for 2020. [4]
- (iii) Calculate the profit if *MWF* sells 3600 window fans in 2020. [2]

Turn over

### Section B

Answer **two** questions from this section.

#### 3. Cool Meals (CM)

*Cool Meals (CM)* produces frozen organic ready-made meals that are sold to food retailers throughout the country.

*CM* buys large quantities of organic ingredients from local farmers for its just-in-case (JIC) stock control management. It uses a cost-plus (mark-up) pricing strategy.

*CM* is known for its:

- good-quality organic frozen meals, which are perceived as good value for money
- flexibility with retailers in terms of quantity of meals supplied, credit given and efficient delivery at pre-arranged dates
- corporate social responsibility (CSR) based on a long-term commitment made to farmers to purchase large quantities of organic ingredients every four months and pay a fair price promptly
- *CM* has an excellent working relationship with farmers, who always prioritize *CM*'s requests in terms of quantity and delivery.

Recently, an economic downturn and increased competition, especially from non-organic frozen meal suppliers, has decreased demand for frozen organic meals.

The finance manager of *CM*, Kayleigh, provided the following financial information.

**Table 1: Selected financial information for *CM***

	2017	2018
Total revenue	\$6 000 000	\$3 500 000
Gross profit margin	16%	14%
Net profit margin	6%	3%
Creditor days	10	5
Debtor days	50	70
Stock turnover days	20	40
Current ratio	2.1	2.4
Acid test (quick) ratio	0.8	0.6

(This question continues on the following page)

**(Question 3 continued)**

Kayleigh is worried about the cash flow of *CM* and suggested the company changes the stock control method from just-in-case (JIC) to just-in-time (JIT). She is also looking at other strategies to improve *CM*'s financial position.

- (a) Define the term *corporate social responsibility (CSR)*. [2]
- (b) Explain **one** advantage **and one** disadvantage for *CM* of using a cost-plus (mark-up) pricing strategy. [4]
- (c) Explain **one** advantage **and one** disadvantage for *CM* of changing its stock control method from just-in-case (JIC) to just-in-time (JIT). [4]
- (d) Using the financial information in **Table 1**, evaluate **two** strategies that *CM* could use to improve its financial position **other than** changing to a just-in-time (JIT) stock control method. [10]

**Turn over**

#### 4. Top Star (TS)

*Top Star (TS)* manufactures sports footwear. Its products are sold through retail outlets and online. Sales of *TS*' footwear in retail outlets are falling. However, because e-commerce is growing rapidly, online sales are increasing. In 2018, *TS*' total domestic sales were \$5 000 000 and total domestic market sales for the same time period were \$50 000 000.

*TS* must consider several challenges:

- Some businesses in the sports footwear industry are finding that selling online leads to many problems and higher costs
- *TS*' website is not user friendly. Customer complaints about the website and ordering problems are increasing
- *TS*' presence in international markets is weak and its product range is limited. The directors of *TS* want to develop a new line of running shoes but the company has insufficient finance for research, development and creating brand awareness.

The directors think that *TS* should follow an external growth strategy. Two options are being considered:

- **Option 1:** Some directors propose a merger with a footwear manufacturer, the multinational company *All Champion*, which would allow *TS* to be more competitive
- **Option 2:** Other directors propose a merger with a footwear retailer that has a strong presence in domestic and international markets.

The finance manager believes that merging with *All Champion* could hurt *TS*' reputation. *TS*' factories may have to close, which the local population may resent.

- (a) Describe **one** feature of a multinational company (MNC). [2]
- (b) Calculate *TS*' market share in 2018 (*show all your working*). [2]
- (c) Explain **two** disadvantages **and one** advantage to *TS* of selling its products online. [6]
- (d) With reference to *TS*, evaluate the two merger options. [10]

## 5. FrioAire Appliances (FA)

*FrioAire Appliances (FA)* manufactures medium-priced and medium-quality refrigerators. It is a multinational public limited company. Its factory is located in a less economically developed country that has high unemployment, a tradition of autocratic leadership and labour costs lower than *FA*'s home country. The factory is profitable, and *FA* pays consistently good dividends. Market growth for medium-priced and medium-quality refrigerators is limited.

As part of a strategic objective to increase productivity and to enter a fast-growing market for high-priced and high-quality refrigerators, *FA* is considering building a new factory in and relocating production to Germany. This would require closing the factory in the less economically developed country. The new factory will:

- use innovative technologies, including advanced robotics and 3D processes
- require fewer employees, but those it does require will need to have better skills and qualifications.

Germany has a highly skilled, qualified and productive workforce. The new factory would allow *FA* to reposition its products. However, *FA* would need to raise significant finance to build and equip the new factory.

*FA*'s leadership style at the factory in the less economically developed country is autocratic. Members of *FA*'s board wonder whether this style would be suitable for the new factory in Germany, where workers have more bargaining power because of their high skill level and the labour-friendly cultural traditions. In Germany, *FA* would have to follow more regulations regarding the environment, health and safety, and employee rights.

*FA* workers in the less economically developed country are very loyal to *FA*, which has continued operation through a civil war at significant cost to itself (for security). If *FA* were to close in the less economically developed country, the workers would not find such good jobs.

- (a) Describe **one** disadvantage of operating as a public limited company. [2]
- (b) Explain **one** benefit **and one** cost to *FA* of using an autocratic leadership style. [4]
- (c) Explain **one** positive **and one** negative impact of *FA* on the developing country. [4]
- (d) Evaluate the option of building a factory in, and relocating to, Germany. [10]

Turn over



### 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 business **ethics**. [20]
  
  7. With reference to an organization of your choice, examine the impact of **innovation** on distribution **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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