Diploma Programme
Programme du diplôme
Programa del Diploma

Business management
Standard level
Paper 2

1 May 2023

Zone A afternoon | **Zone B** morning | **Zone C** 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]**.

2223 – 5014

Section A

Answer **one** question from this section.

1. Lusanka Company (LC)

Lusanka Company (*LC*) manufactures ceiling fans using a mass production process. Selected financial information for *LC* is shown in **Table 1**.

Table 1: Selected financial information for *LC* for the year ended 31 December 2022 and as of 31 December 2022 (figures in $000s)

Accumulated retained profit	1000
Cash	100
Cost of goods sold	6000
Creditors	1300
Debtors	900
Expenses	3000
Interest	150
Long-term liabilities (debt)	1500
Net fixed assets	3000
Overdraft	200
Sales revenue	11 000
Share capital	1000
Stock	1000
Tax	370

Currently, *LC* manufactures ceiling fans in a building that is financed by long-term debt. *LC* is considering selling the building to pay off the long-term debt and moving production to a new building, which *LC* would lease.

(a) State **two** features of a mass production process. [2]

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

(i) calculate *LC*'s net profit after interest and tax for the year ended 31 December 2022 (*no working required*); [1]

(ii) construct a fully labelled balance sheet for *LC* as of 31 December 2022. [5]

(c) Explain the impact on *LC*'s profit and loss account of selling its current building and leasing a new one. [2]

2. Alfombras Horizonte (AH)

Alfombras Horizonte (*AH*) produces natural henequen* rugs in Yucatán, Mexico, and sells them online. *AH* rugs are very popular among young people because of their eco-friendly materials and *AH*'s mission statement: "We are responsible with Mother Earth for our environment and ourselves."

In 2022, *AH*'s costs increased, but it kept prices unchanged. For 2023, *AH* decided to change its pricing strategy and pass on all cost increases to customers.

Table 2: Selected financial information for *AH* for 2022 and forecasted financial information for 2023

	2022	2023
Fixed costs	\$2000	\$2000
Variable costs per rug	\$65	\$70
Price per rug	\$105	\$120

* henequen: a fibre plant from Mexico and Guatemala. Fabrics made from henequen fibre are used to make a wide variety of products, including bags, rugs and hammocks.

(a) State **two** benefits to a business of having a mission statement. [2]

(b) Using relevant information from **Table 2**, calculate:

(i) the break-even quantity of rugs in 2022 (*show all your working*); [2]

(ii) the profit or loss for *AH* if 500 rugs were sold in 2022 (*show all your working*); [2]

(iii) the margin of safety in 2023 if *AH* sells 750 rugs (*show all your working*). [2]

(c) Explain whether *AH*'s change in pricing strategy for 2023 will have an impact on its unit contribution. [2]

Section B

Answer **one** question from this section.

3. EkoLogiczne Ltd. (EL)

EkoLogiczne Ltd. (*EL*) is a packaging company owned 60 % by Marek Kowalski and 40 % by his father. *EL* is a private limited company. Marek founded the company when he realized that the rise in e-commerce would mean the demand for packaging would always increase.

Originally, Marek imagined that *EL*'s unique selling point/proposition (USP) would be to offer recyclable packaging. However, the eco-friendly market was dominated by one large company, *Big Boxes* (*BB*), which enjoyed economies of scale. Marek reimagined his USP: *EL* would have small factories that enabled customized orders to be fulfilled quickly.

Over time, *EL* opened four factories across Poland and the Czech Republic. Its customers, which included online retailers and small manufacturing companies, placed orders online; if the factory nearest the customer was too busy with other orders, the order would be shifted to another factory. Many customers chose *EL* rather than *BB* for this reason. With growth, however, *EL* began to experience diseconomies of scale and increasingly failed to fulfil orders on time.

Marek is now considering bidding on a large five-year contract for all the packaging solutions for *WszystkoMart* (*WM*), a huge traditional retailer trying to expand its e-commerce presence. The contract would require building a huge factory and focusing almost exclusively on keeping costs low. In terms of scale, *EL* would be almost as big as *BB*, the large company dominating the eco-friendly packaging market.

To finance the new factory, Marek would either have to sell many shares and reduce his and his father's combined ownership to 40 % or take a 30-year loan from a bank.

(a) State **two** features of e-commerce. [2]

(b) Explain **one** advantage **and one** disadvantage for *EL* of having a unique selling point/proposition (USP). [4]

(c) Explain **two** diseconomies of scale that *EL* may have experienced. [4]

(d) Discuss whether *EL* should enter into the contract with *WM* if they have the winning bid. [10]

4. Les Amis PLC (LA)

Les Amis PLC (*LA*) is a public limited company that sells casual clothes for men. Its target market is high-income professionals who value a personalized sales service. *LA* has developed brand awareness and operates 42 shops around the country. It owns 10 of these shops and leases the remaining 32. *LA* employs 950 people, who receive a higher wage than the industry average. *LA* also pays commission to sales staff working in the shops. *LA*'s organizational culture values the wellbeing and needs of its employees. Labour turnover is very low.

Recently, *LA* launched an online shop. Since then, online sales have increased considerably, while sales in *LA*'s physical shops have fallen. Shareholders want *LA* to close all its physical shops and sell online only. However, many of the employees will be made redundant if the physical shops are closed.

LA's current chief executive officer (CEO), Marie Brossard, has a democratic leadership style, and she regularly meets with employees and encourages feedback. *LA*'s managers and employee representatives have never had a conflict. Marie plans to discuss the shareholders' desire to close *LA*'s physical shops with all the shop managers.

Customer returns of clothing orders at *LA* have increased substantially. Most returns are from online customers unfamiliar with *LA*'s clothing sizes. Marie has consulted the e-commerce department on how to reduce the increasing cost of returns, and they have suggested investing in expensive software that will enable online customers to find their correct clothing size.

(a) Define the term *target market*. [2]

(b) Explain **one** advantage **and one** disadvantage for *LA* of paying commission to sales staff working in its shops. [4]

(c) Explain **one** advantage **and one** disadvantage for *LA* of Marie's democratic leadership style. [4]

(d) Discuss whether *LA* should close all its physical shops and sell only online. [10]

5. Justin Price Clothing Ltd. (JP)

Justin Price Clothing Ltd. (*JP*) is a private limited company that manufactures clothing. Its unique selling point/proposition (USP) is its innovative process. Customers sends images of themselves and some measurements to *JP* via the internet, which *JP* uses to determine the customer's exact measurements. Then, a style consultant contacts the customer via video conference to discuss the customer's fashion preferences. After this, the style consultant designs clothing for that customer. Using job/customized production, *JP* manufactures and ships the clothing to the customer. Most materials (stock) are ordered when a customer agrees to the designs. A total of 84 % of *JP*'s customers have purchased items from *JP* more than five times.

Table 3: Selected financial information for the year or at year's end 2020, 2021 and 2022

	2020	2021	2022
Net profit margin	5.0 %	4.0 %	3.2 %
Current ratio	1.3	1.1	0.9
Loan capital	\$1 400 000	\$1 200 000	\$1 000 000

Justin Price, *JP*'s owner, asked his management team to consider two options and decide which would best increase profitability:

- **Option 1**: Change *JP*'s design and production model. Consultants, when working with customers online, would recommend from a series of pre-made options. The company would shift to batch production and have the stock (inventory) available. Style consultants would still be central to the process, but the clothing would no longer be custom made.
- **Option 2**: Increase *JP*'s customer base. *JP*'s customers have high brand loyalty. However, the brand is not very well known. *JP* would open several strategically located retail stores in a few major cities to increase brand awareness. In the store, customers could get their measurements taken and receive in-person fashion advice from a fashion consultant, after which they could purchase unique clothing. *JP* would continue its online services.

(a) State **two** features of loan capital. [2]

(b) With reference to *JP*, explain the differences between job/customized production and batch production. [4]

(c) With reference to *JP*, explain Justin's leadership style. [2]

(d) With reference to *JP*, explain the term *brand loyalty*. [2]

(e) Discuss the two options that Justin has suggested. [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, discuss the ways in which **globalization** can influence marketing **strategy**. [20]

7. With reference to an organization of your choice, examine the impact of **ethics** and **innovation** on operations management. [20]

8. With reference to an organization of your choice, discuss the ways in which **culture** and **change** can influence human resource management. [20]

Companies, products, or individuals named in the stimuli are fictitious and any similarities with actual entities are purely coincidental.

References: