



**BUSINESS AND ORGANISATION
STANDARD LEVEL
PAPER 2**

Monday 19 November 2001 (morning)

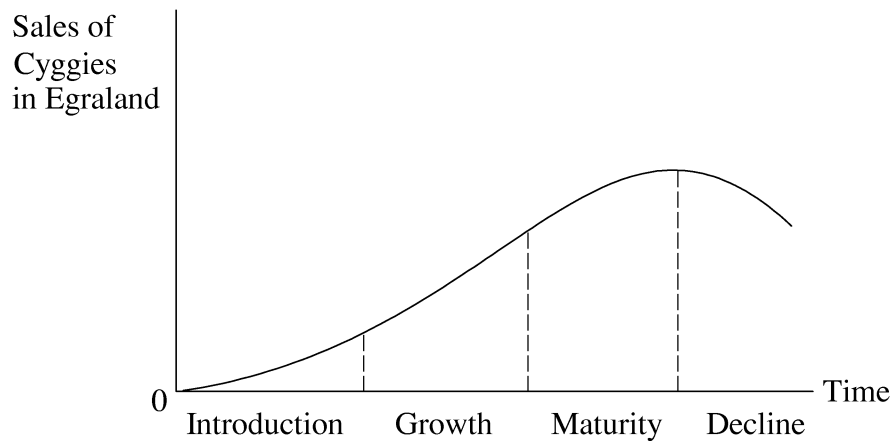
1 hour 45 minutes

INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- Answer four questions.

1. The Cigalot company is the market leader of low nicotine cigarettes in Egraland, the world's largest economy. The Cyggies brand alone accounts for over 70% of the low nicotine cigarette market, and no other cigarette producer has been able to penetrate this market. Sales growth has declined significantly in recent years.

Figure 1 The Product Life Cycle 'Cyggies'



The Production Director has suggested that Cigalot develop new products to ensure the long term future of the company. She proposes that Cigalot expand into cosmetics and health care products, since these industries appear to have greater long term prospects.

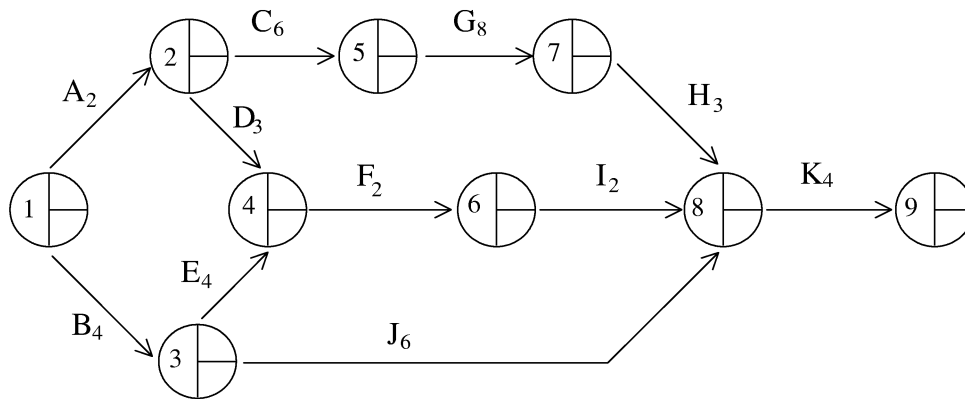
The Financial Director, believes that Cigalot should explore new markets. In particular, he suggests that Cigalot should introduce their products to Sanaland and Qwertyland. These countries are poor but together they account for nearly one third of the world's population and their economies are growing rapidly.

- (a) Explain, with an example, each stage of the product life cycle shown in Figure 1. [6 marks]
- (b) Explain **four** strategies that Cigalot might adopt to extend the life of Cyggies. [4 marks]
- (c) Assess the ethical issues of the Financial Director's proposal. [5 marks]
- (d) Discuss the potential problems associated with diversification. [5 marks]

2. The Jennie Smart chain of six beauty salons is considering the option to open a seventh salon in a neighbouring town. Jennie’s father, Mark, has suggested to Jennie that she is trying to do too much too quickly and that the organisation is already working at full capacity. Jennie ignored her father’s advice and set about planning the project. Using the knowledge gained in her Business and Management course, Jennie prepared a network diagram showing the activities that need to be completed before the seventh salon could open. This is shown in the diagram below.

Network diagram for Jennie Smart’s Seventh Salon.

Figure 1 Seventh Salon Project all activities in days



- (a) (i) Copy Figure 1 into your answer book and complete the network. Include the earliest start times, and latest finishing times. [6 marks]
- (ii) Identify the critical path. [2 marks]
- (iii) Use an example from the diagram to explain the term ‘float’. [2 marks]
- (b) Explain **three** ways the diagram in Figure 1 might help Jennie Smart with the Seventh Salon Project. [6 marks]
- (c) (i) If activity F is not completed until day 18 what impact will this have on the completion of the project? [2 marks]
- (ii) How might this problem be overcome? [2 marks]

3. Potschke Ice Cream manufactures, distributes and sells superior quality and high priced ice cream. The Potschke Ice Cream parlours are very popular with middle-class consumers and tend to be located in fashionable districts.

Fixed costs are \$500 000 per annum, while variable costs are \$1.50 per kilogram. The ice cream is distributed nationally and sells for \$4.00 per kilogram.

Over recent years the profitability of the company has fallen, and competition has made it difficult to increase the price.

Stephanie Potschke, the Managing Director, believes that the company can make huge savings if they pay other companies to do the production, packaging and distribution. Potschke Ice Cream could then concentrate on managing the brand.

- (a) On graph paper use the information above to construct a break-even chart. *[6 marks]*
- (b) Assume 300,000 units are sold. Calculate and identify on your graph the:
- (i) profit *[2 marks]*
- (ii) margin of safety. *[2 marks]*
- (c) How many units would Potschke ice cream need to sell if they wanted to make \$300 000 profit? *[2 marks]*
- (d) Assess the advantages and disadvantages of employing other companies to do the production, packaging and distribution. *[8 marks]*

4. Victoria Gil breeds and sells cattle for beef. In recent weeks there has been a great deal of publicity about cattle disease, and there are suggestions that this disease makes beef consumption unsafe for humans. Although nothing has been proven, Victoria is concerned that this publicity may affect her business. Victoria's husband, Dean, has suggested that Victoria prepare a cashflow forecast to help anticipate the problems the business may have in the coming months. Rent of \$4 000 would have to be paid in July, and Dean reminded Victoria that this would rise by 25% when it was next due in October. The opening bank balance in June is \$8 000. Monthly supplies cost \$1 500 and an electricity bill of \$500 will have to be paid in June and September. Victoria also has other expenses of \$1 000 per month.

Dean also argued that the future of the business looked very uncertain so they should consider diversifying the business, perhaps **grow tulips**, even though the business has virtually no assets. Any diversification would therefore have to be financed entirely with loan capital.

Based on last year's figures, Victoria believes that sales of beef cattle are expected to be \$10 000 in August, \$8 000 in September and \$6 000 in October. This money is received one month in arrears.

- (a) Prepare a cashflow forecast from June to November. *[8 marks]*
- (b) Explain **four** reasons why small businesses often experience cashflow problems, especially in their first year of business. *[4 marks]*
- (c) Assess the viability of Dean's proposal to diversify: **grow tulips**. *[8 marks]*

5. BBB Inc manufactures ball bearings for a wide range of industrial products. In 1998 BBB Inc acquired GLT Inc and it soon became apparent that the styles of management at each company were very different. BBB Inc tended to encourage employees to participate in the decision-making process. Pay was above the industry average and the company had received a variety of awards in recognition of its achievements in employee training and development. In addition staff turnover was low and the company had a reputation for harmonious industrial relations.

In contrast GLT Inc was renowned for low morale and poor product quality. Managers at GLT Inc were rumoured to adopt an autocratic style and employees were expected to conform to company policy and procedures. There had been a great deal of resistance at GLT Inc to the takeover.

- (a) Using appropriate motivation theory, account for the apparent differences in morale at BBB Inc and GLT Inc. *[8 marks]*
- (b) Explain **three** reasons why managers at GLT Inc have resisted the takeover. *[6 marks]*
- (c) To what extent can the style of leadership adopted by a manager affect the level of morale? *[6 marks]*

6. The Crikey clothing company manufactures leisure wear for teenagers. The Crikey brand has enjoyed considerable success and profit margins have been very high.

The Marketing Director believes Crikey should develop a new product range for corporate customers. Market research suggests that there is a niche for fashionable wear for the airline and hotel and catering industries. The Marketing Director believes that a new brand ‘Aknow’ should be launched by Crikey to cater for this market.

- (a) Explain the following terms:

- (i) market niche *[2 marks]*
- (ii) primary research *[2 marks]*
- (iii) secondary research *[2 marks]*
- (iv) profit margin. *[2 marks]*

- (b) Analyse **three** reasons for setting up a new brand name for the new product range. *[6 marks]*

- (c) Suggest and evaluate a marketing strategy for the new product range ‘Aknow’. *[6 marks]*

7. Pratik Agarwal has been appointed the President of the Association of Fish and Chip Shops*. Pratik is concerned that sales of fish and chips have fallen considerably over the last ten years and research suggests that demographic factors combined with the popularity to low fat foods are the main causes of the decline.

Morgan Lyles, the Vice President, thinks that globalisation and the rising exchange rate of the domestic currency has also undermined sales of fish and chips.

Morgan Lyles believes that the association should try to improve the image of fish and chips, because it is regarded as an old fashioned meal, especially among teenagers. Morgan Lyles also thinks that the association should ask the government to introduce tariffs on imported fast food, especially pizza and beefburgers, because globalisation has harmed the fish and chip business.

- (a) Explain the following terms
- (i) globalisation *[2 marks]*
 - (ii) tariffs. *[2 marks]*
- (b) Explain how a strong domestic currency and globalisation might affect fish and chip shops. *[6 marks]*
- (c) Identify **three** groups (stakeholders) that would have an interest in Morgan Lyles' proposal to introduce tariffs on imported fast foods. Analyse the impact of the proposal on the three groups you have identified. *[6 marks]*
- (d) Explain **two** methods the Association of Fish and Chip Shops could use to improve consumer perceptions of their product. *[4 marks]*

* Note: Fish and Chip shops sell a traditional British meal of fried fish and fried potatoes (fries).

8. Serena Gangliani set up business as a sole trader designing Internet web sites. The business enjoyed spectacular growth in the first few months and Serena was unable to cope with the workload. She decided to form a partnership with three former school friends who shared Serena’s interest and enthusiasm for information technology. The spectacular growth accelerated and the partners decided to float shares on the stock exchange and to reduce the level of gearing.
- (a) Explain **three** advantages and **three** disadvantages that sole traders may experience. *[6 marks]*
- (b) Explain **three** advantages Serena may have experienced by taking on three partners. *[3 marks]*
- (c) Several public limited companies (listed on the stock market) have reverted to private limited status in recent years. Explain **three** reasons why they might have done this. *[6 marks]*
- (d) Explain **three** factors that might influence the level of gearing a business chooses. *[5 marks]*
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