

**BUSINESS AND MANAGEMENT
HIGHER LEVEL
PAPER 2**

Thursday 9 May 2002 (morning)

2 hours 30 minutes

INSTRUCTIONS TO CANDIDATES

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

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1. *Chissano Prints* is a medium-sized textile business, employing 182 staff. It imports unusual cotton prints and laces and manufactures these into curtains, tablecloths, bed linen and clothing, which sell at premium prices. The products are very fashionable and the owner, Winnie Chissano, is always looking for new prints and styles to keep up with customer trends. Customers value the unusual materials and designs, and the high level of service offered by the firm.

Given the fashionable nature of the products, Winnie valued her stock using the last-in-first-out method (LIFO). However, her accountant has recently passed on a letter from the tax authorities, which want her to change to the first-in-first-out (FIFO) method of stock valuation as they believe she has paid too little tax.

This encouraged Winnie to examine her business concept and the nature of her stock management. She believes that the risks of running a textile business are growing and that she will have to change to become more competitive. She is considering franchising and has examined the marketing and legal consequences of this route. In addition, a large clothing wholesaler recently proposed merger negotiations. They have several very large retail customers, who buy in bulk and Winnie can see merits in the alliance. Winnie also commissioned management consultants to review the present organizational structure and operation. They made recommendations for internal change if the merger or franchise options were not acceptable to Winnie. Two key proposals were:

- reducing overheads by increased use of homeworking and flexible work practices
- introducing just-in-time stock management and improved quality controls

Winnie decided to consult her staff on the present position. Reaction by staff to the consultant's proposals and the possible merger was not good. Many were alarmed by the proposed changes.

- (a) Using your own figures and worked examples, show how the LIFO method of stock valuation may lead to a lower profit and tax liability for *Chissano Prints*, than using the FIFO method. [5 marks]
- (b) Discuss the relative advantages and disadvantages for *Chissano Prints* of the merger and franchising options, and consider which of the **two** options the firm should select. [6 marks]
- (c) (i) Outline **three** reasons for the negative reaction of the staff to the proposed merger and the management consultant's proposals. [3 marks]
- (ii) Using relevant examples, explain the process of implementing the proposed internal changes within *Chissano Prints* and detail methods of overcoming or minimizing resistance among the staff to the changes. [6 marks]

2. 3M is a multinational corporation manufacturing innovative products in highly competitive consumer, commercial and industrial markets. The following extracts outline 3M's philosophy:

3M - McKnight Policy

“Those men and women to whom we delegate responsibility, if they are good people, are going to want to do their jobs in their own way

Management that is destructively critical when mistakes are made kills initiative and it is essential that we have people with initiative if we are to continue to grow.”

William L McKnight, former President, 3M (1948)

3M Human Relations strategy

Our people are the company's most valuable asset. They are the primary means by which 3M's goals and objectives will be attained. The company's management, therefore believes it is essential to provide an organizational structure and a work climate that:

Figure 1

- Respects the dignity and worth of individuals
- Encourages the initiative of each employee
- Challenges individual capabilities
- Provides equal opportunities

www.3M.com (2001)

The People at 3M

Since our beginnings at the turn of the 20th century, our success has come from producing innovative solutions to our customers' problems. But innovation is more than products, it is the way 3M people do business.

- 3M is a company where an entrepreneurial spirit shared by all, leads to the constant development and spin off of innovative ideas, processes and products. We are a versatile company applying a great many technologies as we develop products that meet often unrecognised customer needs.

Recruitment Advertisement

- Our corporate culture encourages a lively exchange of concepts and information across different areas and functions. You are expected to be creative; to share your knowledge, freely and often. And to demonstrate a ready willingness to solve problems, act on your initiative and motivate others. You'll also find 3M flexible. We champion both sides of your nature – team player and individualist.

(This question continues on the following page)

(Question 2 continued)

- (a) Identify **three** personal characteristics which could be included in a person specification to support the recruitment of a 3M management trainee. *[3 marks]*
- (b) (i) Describe 3M's corporate culture and assess how this corporate culture encourages innovation and new product development. *[4 marks]*
- (ii) Analyse how 3M's corporate culture is likely to influence its organizational structure and communication systems. *[5 marks]*
- (c) You are the Human Resources Director at 3M. Produce a memorandum (memo) for all operational managers detailing:
- (i) six practical suggestions to put into operation the ideals for organization and work climate stated in Figure 1, and
- (ii) how benchmarks (standards) could be set up and used to measure and reward performance. *[8 marks]*

3. *Stoves* plc has introduced a scheme that allows consumers to customise their own cookers, letting them choose the fuel type, style and colour.

Mass customisation is currently only available on *Stoves* 110 millimetre range cookers, but Guy Weaver, Marketing Director sees a rosy future for the scheme.

He commented, “The mass customisation (made to order) scheme has been extremely successful for those who have signed up already and we anticipate that similar programmes will become the norm at the top end of the market across all product sectors in the coming years.”

He continued, “The new century brings with it, new ways of doing business and consumers are increasingly expecting the products they purchase to be designed and built to their requirements. It is important that manufacturers and retailers alike are able to respond”.

Customers who wish to customise their *Stoves* range cooker can chose between different fuel types - all electric, all gas or dual fuel – whether the appliance is lidded or un-lidded and can decide on the colour and even the particular design of the doors, knobs and handles.

Design your own cooker: Stoves plc press release, November 2000

- (a) Discuss the advantages and disadvantages of mass (flow) production. [5 marks]
- (b) Explain how just-in-time manufacture and the use of modern technologies, allows *Stoves* to customize their products, whilst still producing in bulk. [5 marks]
- (c) Analyse the effects on *Stoves* plc’s liquidity and marketing of making cookers to order. [4 marks]
- (d) Evaluate production and promotion strategies, which may provide additional competitive advantage for *Stoves*’ cookers over other brands. [6 marks]

5. The Millennium Report from the United States market research group A C Nielsen, has revealed the dramatic emergence of a consumer lifestyle in China, unimaginable before the open door policy in 1979. The report highlights a very high demand for consumer goods such as computers, microwave ovens, mobile phones and credit cards and describes how Chinese consumers are being drawn to strong brands such as Coca-Cola, Sprite and Pepsi-Cola. Like the industrialized countries in the world, almost all people in China watch some TV. In the three main Chinese cities, over 40 % watch TV for at least 3 hours daily. The report also uncovered fascinating demographic consumption patterns. For instance, 53 % of women in China have eaten chocolate, compared to only 29 % of men.

“The consumer way of life has taken off in China and is spreading fast. A low level of consumer goods ownership coupled with strong growth in buying power has given sustained momentum to the phenomenal growth and tremendous opportunities in the consumer market,” said Steven Yung, president of A C Nielsen. “Marketers who feel the pulse of China, the largest emerging market in the world, are going to be well rewarded in the new millennium,” he said.

In 2001, China gained full membership of the WTO (World Trade Organisation), which promotes free trade between nations through the removal of tariffs, quotas, export subsidies and other unfair trade practices. Access by foreign companies to China and its 1.3 billion consumers has been strengthened, exposing Chinese state-owned enterprises to fiercer competition. By 2003, China is set to join South Korea and Japan and the ten members of the ASEAN (The South East Asian Trading Bloc) to form a powerful 13-nation free trade zone.

- (a) Describe secondary and primary research methods that A C Nielsen may have used to collect data for its Millennium Report, and suggest possible problems it may have faced gathering such data within China. *[4 marks]*
- (b) Discuss and assess the possible advantages and disadvantages of foreign firms locating in emerging economies such as China. *[6 marks]*
- (c) (i) Define, with examples, the terms tariffs, quotas and unfair trade practices. *[2 marks]*
- (ii) Explain why organizations, such as the WTO promote free trade. *[2 marks]*
- (d) Analyse the case for and against joining a regional economic bloc, such as the EU, ASEAN, NAFTA or Mercosur. *[6 marks]*

6. *Safepac* is a small European engineering company, manufacturing and supplying shops with metal display units. Their present factory has a production capacity of 20 000 display units. *Safepac* has been approached by one of its major customers to supply an additional 12 000 display units, with a possibility of more orders to follow. The Production Manager presents the following data to the owner of the business:

Price per display unit \$ 28.00
 Raw material cost \$ 4800 per batch of 1000 metal sheets
 Direct labour per unit \$ 6.4
 Fixed costs \$ 252 000
 Present output/sales 18 000 display units

N.B. One metal sheet is needed for each display unit.

To manufacture the extra output, *Safepac* will need an extra factory, offering increased production capacity of 15 000 cases, but adding \$ 200 000 to fixed costs. The owner of *Safepac* has recently discussed transferring manufacture of the finished display units to an Indian subcontractor, which would provide the finished product to *Safepac* at 840 Indian rupees per display unit. The present exchange rate is 40 Indian rupees for each \$ changed, although this has fluctuated by 10 % over the last year. This would transform *Safepac* into a wholesaler, rather than a manufacturer, and would reduce its fixed costs to \$140 000. Inflation is falling in Europe and the Central Bank is thinking of cutting interest rates below that of most countries, and certainly below that of India.

- (a) (i) Prepare a break-even chart showing the revenues and costs for *Safepac* with and without the extra factory. Show **all** your workings in the form of a table. Identify break-even points on the graph. [7 marks]
- (ii) Calculate profit earned at the following production levels:
- present output (18 000 units)
 - present capacity (20 000 units)
 - output with new order (30 000 units)
 - capacity with new factory (35 000 units) [3 marks]
- (b) Explain the relationships between interest rates, inflation and exchange rates. [5 marks]
- (c) Evaluate the option of subcontracting manufacture to the Indian firm. [5 marks]