



**BUSINESS AND MANAGEMENT
HIGHER LEVEL
PAPER 2**

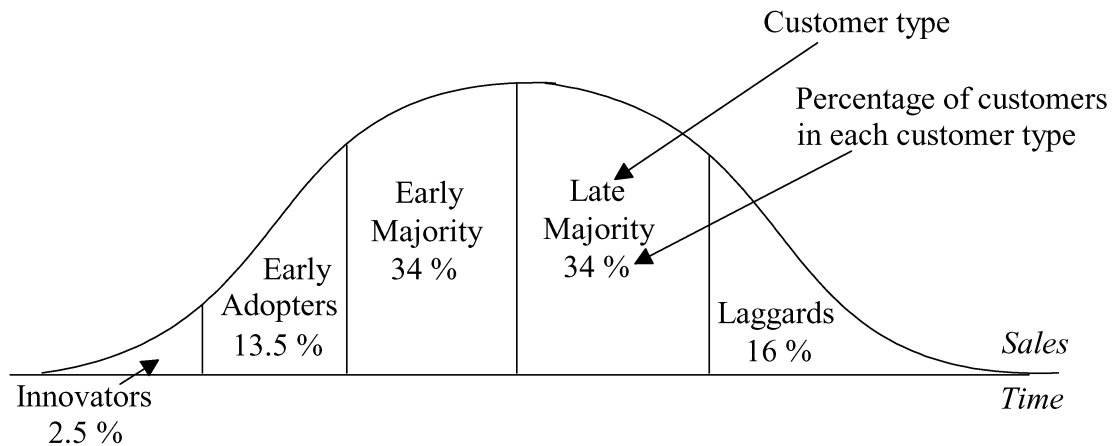
Wednesday 21 May 2003 (morning)

2 hours 30 minutes

INSTRUCTIONS TO CANDIDATES

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

1. Innovation Model



Everett Rogers' Innovation Adoption Model

[Source: "Diffusion of Innovations" Everett M Rogers 1962 The Free Press New York]

The Everett Roger's Innovation Model (shown above) links the type of customer to stages of the product life cycle. It examines how groups of customers react to new products and services. For example, customers who are "Innovators" are prepared to take risks and like having new products, often to show off. "Early Adopters" are typically fashionable and tend to research new products thoroughly before buying. As a result they are opinion formers and influence later purchasers. The "Early Majority" wish to be fashionable, but are followers rather than leaders. The "Late Majority" tend to be suspicious of new products and resistant to change. They will change, however, when the evidence is overwhelming that a product offers value. "Laggards" resist change and are unconcerned by image. They prefer to pay low prices for a well-tested and popular product. They may even take pleasure in being unfashionable.

- (a) Describe the main features of each stage of the product life cycle. [6 marks]
- (b) Define the term *price elasticity of demand* and explain why this is likely to change as a product or service moves through its life cycle. [5 marks]
- (c) Analyse the major differences between the marketing strategies that could be used to attract "Innovators" and the "Late Majority". [9 marks]

2. *Gunwale Surfboards*

A surfboard company, *Gunwale Surfboards*, advertised its professional “Slider X6” boards in its January catalogue at \$220 each. These boards are produced in small batches of between 20 and 25 by local suppliers, who make by hand to order. Each batch has a different design to keep up with current fashion and sometimes incorporates new technology or materials. The suppliers’ prices vary according to raw material costs. The quality, although excellent, varies according to the craftsman involved. Supplies are sometimes delayed by the personal circumstances of the individual supplier. *Gunwale Surfboards* had twelve boards in stock at the beginning of 2003, that had cost \$156 each to purchase. The following are stock purchases and sales for the first six months of the year:

Date (2003)	Purchases (units)	Cost per unit (\$)	Sales (units)
January	140	165	86
February	60	162	93
March	160	170	110
April	60	168	108
May	150	173	125
June	100	170	146

Gunwale Surfboards is concerned about the rising purchase cost of the boards. It has been approached by a large overseas supplier, *Johanssons*, which is prepared to supply boards more cheaply at \$150 each, provided *Gunwale Surfboards* purchases batches of 250 boards at a time. Prices fall further if batches are larger. The boards are mass-produced, but *Johanssons* is prepared to brand the boards with a *Gunwale Surfboards* logo. *Gunwale Surfboards* is concerned about maintaining quality, but *Johanssons* is willing to discuss joint quality control measures to ensure high standards and is investing significant amounts into new production equipment. *Johanssons* have even suggested taking a minority shareholding in *Gunwale Surfboards*.

- (a) Using the information in the table calculate the value of closing stock as at the end of June 2003:
- if the method of valuation is first in, first out (FIFO).
 - if the method of valuation is last in, first out (LIFO). [8 marks]
- N.B.** *Calculations should be shown for each month.*
- (b) Calculate the gross profit on the “Slider X6” for the six-month period January to June, using the two methods of stock valuation. [3 marks]
- (c) (i) Describe **three** advantages to *Gunwale Surfboards* of branding their products. [3 marks]
- (ii) Evaluate the option of switching suppliers from small local producers to *Johanssons*. [6 marks]

3. *Tesco Supermarket*

United Kingdom's largest supermarket group *Tesco* has recently invested £215m in a joint venture with the Malaysian conglomerate, Sime Darby, to open 15 Malaysian hypermarkets by 2006. The first store has already opened on the outskirts of the Malaysian capital Kuala Lumpur. Several other foreign, food-retailing groups, such as the French *Carrefour* group and the Dutch supermarket chain, *Ahold*, have opened stores recently in Malaysia.

Tesco aims to have half its selling space in overseas locations by the end of 2003. It already operates 48 hypermarkets in Taiwan, South Korea and Thailand, and has ambitious plans to expand into the emerging economies of Eastern Europe, particularly in Poland, Hungary, Slovakia and the Czech Republic, many of which are in the process of applying for membership of the European Union. The expansion plans may involve some franchising or joint venture arrangements.

Tesco's mission statement is:

“To create value for our customers, to earn their lifetime loyalty”.

This is summed up in their two values, which drive the way they do business:

- *“No one tries harder than we do for our customers”*
- *“We treat people the way we like to be treated”.*

[Source: adapted from Business Diary, Guardian 29 Nov, 2001]

- (a) What is the purpose of a company's mission statement? *[3 marks]*
- (b) Analyse the potential benefits and problems associated with *Tesco*'s and *Carrefour*'s decision to expand their businesses in overseas locations, rather than seek expansion in their own countries. *[8 marks]*
- (c) Evaluate the option of accelerating *Tesco*'s overseas development through the use of franchising or joint ventures. Consider both options in your answer. *[9 marks]*

4. Corporate and Social Responsibility

In 1994, the world's second largest oil company, *Shell*, changed its logo, introducing warmer, brighter reds and yellows. It cost \$500 million and was designed as a “radical new presentation of *Shell's* traditional brand values”. *Shell* was reeling from protests over alleged unethical activities in Nigeria and from protests by the pressure group *Greenpeace* over its attempt to sink the redundant Brent Spar oil platform in the North Sea. These bad news stories were undermining its brand, probably its largest single intangible asset, valued at between \$2.5bn and \$5bn. For a company with a presence in 120 countries worldwide, this was a problem, affecting customer, corporate and government attitudes to the company.

Shell answered its critics by redefining itself into a business that took its social responsibility seriously. It now prepares reports into the social impact of its operations as well as an annual environmental report. It even invited its pressure group tormentors, *Greenpeace*, to a day-long seminar with its senior management and has invested millions into renewable energy research.

In 2001, *Shell* made a record profit of £10bn and increased its dividends to its shareholders.

- (a) Analyse the advantages and disadvantages to *Shell* of setting and implementing socially responsible and ethical objectives. [8 marks]
- (b) Define, with examples, *intangible assets* and explain how these assets benefit businesses like *Shell*. [5 marks]
- (c) Assess how, and to what extent pressure groups like *Greenpeace*, can impact on the decision making of large corporations. [7 marks]

5. Human Resource Management

As the economic environment becomes increasingly global and competitive, company culture and organization become more and more important. The way people are employed is changing rapidly. Rather than a career for life, employees are likely to be faced with a series of projects, rather than jobs. Companies will put more emphasis on outsourcing, contract work and consultants, and a work force willing to re-skill, retrain and respond to a fast moving environment.

Customers are getting used to doing business whenever they want. Just about every major company is reviewing its products, services and delivery mechanisms in the light of the 24 hour, seven day, instantaneous accessibility of the “world wide web”. If organizations are to be flexible and agile, it follows that people must be flexible and agile too. Companies need to take responsibility for this by providing an environment that encourages and empowers their workforce.

Human Resource Report

[Source: Adapted from “People Pressure” and “Employees all over the place”. The Observer 23 Aug 2000]

- (a) Explain what is meant by *outsourcing* or *subcontracting*. Suggest activities in a firm which might be suitable for outsourcing or subcontracting, and explain why. [5 marks]

- (b) Assess how the introduction of new information and communication technologies has contributed to changes in organization structures and corporate culture. [8 marks]

- (c) Analyse the consequences of changing work patterns and practices on the recruitment and training of staff. [7 marks]

6. Commodities and *Fair Trade*

Commodities such as cocoa, coffee, tea, honey and sugar are often the main source of income for small-scale producers in developing countries. The prices of these crops are set on world markets and have not risen in the last forty years. Indeed, coffee prices have crumbled since the early 1980s with world prices less than a quarter of 1970 levels. Over this time, large multinational companies have taken over much of the world’s coffee production, forcing many small local suppliers out of business.

Grown in around 80 countries, coffee is the second most valuable traded commodity after oil. Members of the Association of Coffee Producing Countries (ACPC) have attempted to regulate supply in world markets to stabilize prices.

In 1993, *Fair Trade* cocoa was launched by the Max Havelaar Foundation in Holland. *Fair Trade* ensures that cocoa producers receive a guaranteed, secure price for their crop reflecting the costs of production and providing a premium to be spent on community projects. These ideas were then extended to other commodities, such as coffee. However, even with fair traded chocolate, 34 % of revenues ends up with the shops that sell it, 10 % with the manufacturer, and only 4% with the farmer that produced the cocoa.

Fair Trade are now considering opening a chain of cafes emphasizing the business’s ethical objectives, and selling pure, organic products. However, the company is unsure whether the public is fully aware of their corporate objectives and the quality of their products. Nor are they convinced that they will be able to compete with more established chains such as *Starbucks*. They are proposing to carry out extensive market research.

- (a) Explain possible changes in the underlying conditions of supply and demand for commodities, which may have contributed to their falling prices (in real terms) over the last 40 years. Suggest which changes are most likely to have lowered price. [6 marks]

- (b) Assess the competitive advantages that multinational companies have over smaller national cocoa producers in less economically developed countries, and comment on whether small producers can have a viable future. [6 marks]

- (c) (i) Evaluate **two** potential methods available to *Fair Trade* to select a sample for their market research. [4 marks]

- (ii) Analyse possible sources of secondary data that will help *Fair Trade* judge the potential for their products and services. [4 marks]