



**BUSINESS AND MANAGEMENT  
HIGHER LEVEL  
PAPER 2**

Wednesday 3 November 2004 (morning)

2 hours 30 minutes

---

**INSTRUCTIONS TO CANDIDATES**

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

## 1. The Great Call of China

A new survey by Wireless World Forum put the number of mobile phone users in China at 97.3 million, with forecasts showing the figure will rise to 111 million by the end of the year. This represents an annual increase of some 42 million users. The Forum says the market is far from saturated: with only 9 % of the population reached compared to 50-70 % across most of Western Europe. Only one in five Chinese have access to a standard telephone connection and some analysts claim that China is capable of 50 % market penetration – which means some 650 million individual users of mobile phones.

China's GDP (Gross Domestic Product) is growing at one of the highest rates in the world. Future mobile consumers are the young – more than 300 million in all. Emerging Asian economies have traditionally shown a high level of interest in “status” goods that indicate a degree of wealth. Mobile phones have become a fashion accessory. Everyone from university professors to taxi drivers regards a mobile phone as a necessity. Young Chinese are also beginning to use additional mobile services such as text messages. Mobiles are not uncommon in the countryside, too, as migrant workers buy mobiles to call their villages. But large numbers of unemployed workers and urban poor still find the service too expensive.

The telecommunication industry is provided mainly by state-owned organizations and is centrally controlled. Deregulation of the market and foreign part-ownership occurred after China's entry to the World Trade Organization. The mobile war is set to become even more intense.

[Source: adapted from John Gittings, *The Great Call of China*, The Guardian, 22 Nov 2001]

- (a) Evaluate the likely success of a foreign business entering the Chinese telecommunications market. Use PEST analysis to structure your answer. [10 marks]
- (b) Examine how the objectives of a Chinese telecommunication company might change if it moved from the public to the private sector of the economy. [4 marks]
- (c) Explain **two** possible costs and **two** possible benefits for Chinese companies resulting from free trade and deregulation of the telecommunications market. [6 marks]

## 2. Budget Airlines

Many loss making national airlines (such as *British Airways* and *Air New Zealand*), that recently concentrated on business-class travellers, have started to compete directly with low cost airlines. They plan to significantly reduce fares, remove restrictions on bookings and set up new websites dedicated to attracting cost-conscious travellers back to national airlines. The quality of the service on-board will not be affected.

While the national airlines are shrinking, cutting costs and capacities, the low cost airlines are racing ahead. Industry analysts expect the low cost airlines share of the market to rise from 7 % to 30 % in the next five years. As a result low cost airlines have seen their share prices more than double, whereas the shares of national carriers have fallen in value. They believe that weak airlines will eventually disappear and leave space for others to expand. The smaller of the national airlines will have to give up their ambition to be global players. Squeezed by the low cost airlines and their larger national rivals, they will either go out of business, get swallowed up by rivals, or shrink to become niche players.

[Source: adapted from *Dominic O'Connell*, "Budget boys batter the flag carriers", *The Sunday Times*, 16 June, 2002]

- (a) Examine how the poor performance of national airlines will impact on **two** of their stakeholder groups. [4 marks]
- (b) Explain with reference to the airline industry the terms:
- (i) direct costs
  - (ii) indirect costs. [4 marks]
- (c) Analyse **two** advantages and **two** disadvantages to smaller national airlines of focusing on niche markets. [5 marks]
- (d) Evaluate possible pricing strategies airlines could adopt to increase their revenue. [7 marks]

### 3. New Microsoft

*Microsoft* is undergoing the biggest transformation in its history. The founder Bill Gates is handing over the running of the business to his best friend – Steve Ballmer. Few companies have been so closely identified with their founders and Gates’ intellect and fierce competitive streak is reflected in all of *Microsoft’s* activities.

As *Microsoft* matures, Ballmer’s ambition is to make *Microsoft’s* next twenty five years as successful as the last. To do this he knows that *Microsoft* must change. Ballmer’s vision of the future involves a greater degree of accountability, co-operation and sharing, than the company has been used to in the past.

**HARNESSING “THE FORCE”**

Steve Ballmer has drawn up a summary of *Microsoft’s* culture.

<b>Strengths</b>	<b>Weaknesses</b>
<ul style="list-style-type: none"> <li>• the company is “totally about intelligence”. It employs some of the brightest people</li> <li>• <i>Microsoft</i> “loves, loves, loves” technology</li> <li>• it is highly competitive</li> <li>• internally the company is honest and self-critical</li> <li>• individuality is encouraged.</li> </ul>	<ul style="list-style-type: none"> <li>• internal competition is too fierce. Departments see each other as enemies</li> <li>• the company is sometimes too product focused and fails to identify market opportunities</li> <li>• it is too reliant on “brilliant leaders”</li> <li>• has strong opinions but fails to act on them</li> <li>• there is a lack of team work.</li> </ul>

***Microsoft’s* aims**

- restoring industry trust: the company is seen as using its dominant position aggressively
- building customer loyalty: customers complain *Microsoft* does not listen to them
- encouraging internal co-operation and ending conflict within the organization
- delegating responsibility from the top: Bill Gates, founder, and Ballmer acknowledge the company is now too big to be run by one man.

Ballmer is now assessing the culture of his staff.  
Over the next six months all of *Microsoft’s* 50 000 employees will be assessed to see how well they are adapting to Ballmer’s vision.

[Source: adapted from *Dominic Rushe, New Microsoft*, The Sunday Times, 23 June 2002]

*(This question continues on the following page)*

*(Question 3 continued)*

- (a) Describe the organizational culture of *Microsoft* as identified by Steve Ballmer. [2 marks]
- (b) (i) Explain the meaning of business aims, and their use in managing large organizations such as *Microsoft*. [3 marks]
- (ii) Analyse **four** practical strategies *Microsoft* could implement to help it achieve its aims. [8 marks]
- (c) Discuss how the process of change can be managed effectively in *Microsoft*. [7 marks]

#### 4. The marketing of Keep-Fit

*Keep-Fit* is a Public Limited Company that runs a national chain of health clubs. Currently, the company targets mainly 25-35 year old professionals. For a premium membership fee, members can enjoy various high quality leisure facilities like a modern gym, large swimming pool, various keep-fit classes and dining facilities.

After an initial commercial success, a 20 % fall in membership resulted in a significant reduction in profits. Although the management team have never tried to find out directly why so many members left, comments put in suggestion boxes have revealed member dissatisfaction regarding

- overcrowded facilities in the early evening/after-work hours
- dirty changing rooms
- frequent equipment failure in the gym
- the rudeness of some members of staff
- the inability of some staff to deal with unexpected problems or answer routine questions.

A new marketing manager is considering ways of increasing the membership numbers in order to increase the level of profit by

- targeting new segments such as mothers with young children
- improving the service to both current and new members.

- (a) Identify **two** sources of primary data and **two** sources of secondary data that are available to *Keep-Fit*. [4 marks]
- (b) Explain how *Keep-Fit* could use the sources identified in part (a) to develop new market segments. [6 marks]
- (c) Using relevant marketing concepts, such as Ansoff's Matrix, design a marketing plan aimed at attracting mothers with young children as additional members. [10 marks]

**5. Quick-Fix – Cash flow forecast**

John Wise, a sole trader and computer science graduate, wants to expand his IT consultancy business called *Quick-Fix*. John operates from home, but is now considering relocating to a rented office from the start of January 2005. Abby, a graduate in accounting and finance is looking for business opportunities and has saved \$2 000 to be used as her own start-up capital. She is considering the option of forming a business partnership with John.

Abby is impressed by *Quick-Fix's* level of profit for 2004, but would like John to produce a cash flow forecast for 2005 before she makes a decision on forming a business partnership with him.

John has produced forecasted sales revenue and costs for **January to June 2005**:

John expects to receive monthly revenue of \$1 000. 60 % of this will be paid in cash with the remaining 40 % received one month later.

Electricity bill	\$100	per month
Telephone bill	\$250	annual charge to be paid in equal instalments in February and April
Advertising	\$150	per month
Office rent	\$3 000	per annum to be paid in March
Finance charge	\$50	per month
Personal drawings	50 %	of the monthly total revenue
Opening cash balance for January	\$500	

- (a) Describe **two** advantages of forming a partnership. [2 marks]
  
- (b) Construct a cash flow forecast for *Quick Fix* for each month from January to June 2005. [6 marks]
  
- (c) Explain the difference between *Quick Fix's* cash flow and its profit and why Abby wants John to produce a cash flow forecast. [4 marks]
  
- (d) Evaluate **three** strategies John Wise could implement to improve *Quick Fix's* cash flow position. [8 marks]

**6. Stock valuation**

*Trend-Setter*, established in January 2004, produces dresses for fashion conscious clients. The company buys a fixed amount of the silk material used for production from cheap, but very reliable overseas suppliers.

In the first three months of its first trading year, *Trend-Setter* sold 2 000 dresses per month at \$20 each. However, in the next three months of operation the company experienced a 50 % drop in the number of dresses sold despite a 20 % price cut. Consequently, the amount of stock held increased.

The manager, therefore, is thinking of introducing the JIT (just-in-time) method of production and stock control.

Stock data for *Trend-Setter* for the first six months of 2004 is shown below

<b>Month / 2004</b>	<b>Purchases (sq meters and price)</b>	<b>Stock used (sq meters)</b>
January	5 000 @ \$3	2 000
February	NIL	2 000
March	5 000 @ \$4	2 000
April	NIL	1 000
May	5 000 @ \$4	500
June	NIL	500

- (a) Using the FIFO (first in first out) method of stock valuation:
  - (i) calculate the value of the closing stock at the end of June 2004. *(Show all your working.)* [6 marks]
  - (ii) prepare a profit and loss account for the period January to June 2004. *(Show all your working.)* [5 marks]
- (b) Explain how the use of the alternative LIFO (last in first out) method of stock valuation will affect gross profit. *(Calculations are not required.)* [3 marks]
- (c) Evaluate whether *Trend-Setter* should introduce a JIT (just-in-time) method of production and stock control. [6 marks]