



**BUSINESS AND MANAGEMENT
HIGHER LEVEL
PAPER 1**

Thursday 17 May 2007 (afternoon)

2 hours

INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- Read the case study carefully.
- Section A: answer all the questions.
- Section B: answer one question.

SECTION A

Answer **all** the questions in this section.

1. (a) Explain possible areas of conflict between any two stakeholder groups in *Gladrags Ltd*. [4 marks]
- (b) Prepare a decision-making framework to support *Gladrags Ltd* in its development of a future strategic direction. [6 marks]

2. (a) (i) Identify the target market for the traditional clothing range and the target market for the new exclusive designer range created by Saswati. [2 marks]
- (ii) Explain the different buying behaviours of consumers in each of these target markets. [6 marks]
- (b) Analyse the role of market research in the development of the new “Sassy” brand. [8 marks]

3. (a) (i) Explain the “proper recruitment procedures” (*line 83*) that should have been followed when recruiting Stephen Moffat. [4 marks]
- (ii) Discuss whether Jenny Boulton’s proposal to offer higher wages will solve *Gladrags Ltd*’s recruitment problem. [8 marks]
- (b) Jenny Boulton is proposing the introduction of a flatter organizational structure. Using appropriate motivation theory, evaluate the likely impact of this change. [10 marks]

4. Discuss the advantages **and** disadvantages of outsourcing production of *Gladrags Ltd*’s clothing ranges to Vietnam and Bangladesh. [12 marks]

SECTION B

Answer **one** question from this section.

5. Colin Buckley, the finance manager, has produced the detailed budgets and variance analysis requested by the board of directors (*line 127*). Extracts from these are shown in the tables below.

Table 1 – Budgets 1 October 2006 – 31 March 2007

	Oct 2006	Nov 2006	Dec 2006	Jan 2007	Feb 2007	Mar 2007
Sales (\$000)	215	255	265	180	165	165
Labour costs (\$000)	150	165	155	140	145	140
Expenses (\$000)	35	40	32	36	34	40

Table 2 – Budgets and variance analysis 1 October 2005 – 30 September 2006

	1 Oct 2005 to 31 Dec 2005	1 Jan 2006 to 31 Mar 2006	1 Apr 2006 to 30 Jun 2006	1 July to 30 Sept 2006
Budgeted sales (\$000)	775	650	675	700
Actual sales (\$000)	750	610	615	655
Variance	–25	–40	–60	–45

- (a) Explain the reasons for the board of directors wanting to see the budget extracts and variance analysis reports produced by Colin. *[3 marks]*
- (b) Explain
- (i) possible reasons for the changing pattern of labour costs shown in Table 1. *[3 marks]*
- (ii) possible reasons for the variances shown in Table 2. *[4 marks]*
- (c) Using the information in Tables 1 and 2 above and the accounts in Appendix 1, analyse the financial position of *Gladrags Ltd* from the perspective of the Indian multinational corporation that is considering a takeover. *[10 marks]*

6. The board of directors is trying to decide which of the strategic choices facing the firm they should adopt. There is insufficient support from the board of directors for a complete sale of the firm, so the options under consideration are:

- sell *Gladrags Ltd* to the Indian multinational corporation considering a takeover
- sell the UK production facilities and outsource production to Vietnam and Bangladesh
- develop the existing business by refocusing the product range, starting with the “Sassy” brand and launching the brand in Europe.

To help the board with their decision, Anjay (the marketing manager) has prepared the following data showing the expected revenues for each option.

Cost (\$000)	Option	Value of Sales	Probability (%)	Average annual return 2006-2016 (\$000)
50	Sell <i>Gladrags Ltd</i> to Indian multinational corporation		100	315
75	Sell UK facilities and outsource production	High sales	35	500
		Average sales	40	375
		Low sales	25	220
100	Redevelop existing business	High sales	45	520
		Average sales	40	350
		Low sales	15	280

- (a) Construct a decision tree showing which option is best on financial grounds. *(Show your working)* [5 marks]
- (b) (i) Identify **two** additional sources of secondary data that will help support the decision about the most appropriate option. [2 marks]
- (ii) Explain how this data will inform this decision. [4 marks]
- (c) Taking into consideration the external opportunities and threats in Appendix 2 and the information given in the table above, evaluate whether *Gladrags Ltd* should expand the “Sassy” brand into Europe. [9 marks]