



88085012



International Baccalaureate®  
Baccalauréat International  
Bachillerato Internacional

**BUSINESS AND MANAGEMENT  
HIGHER LEVEL  
PAPER 2**

Friday 7 November 2008 (morning)

2 hours 30 minutes

---

**INSTRUCTIONS TO CANDIDATES**

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

## 1. Wal-Mart

*Wal-Mart*, a major global retailer has decided to sell its 85 German stores to *Metro* after 8 loss-making years in which it tried to break into a market dominated by discount stores. Michael Duke, *Wal-Mart* vice-chairman said Germany's business environment made it "difficult to obtain the scale we desired". The sale of these stores to *Metro*, Germany's largest retailer, marks *Wal-Mart's* most significant international withdrawal. *Wal-Mart* continues to expand profitably in Latin America and China where the external environment is much more favourable.

*Wal-Mart* entered Germany in 1998 but struggled from the beginning with:

- intense competition from domestic discount stores, which have increased their share of the German grocery market to 40%. German consumers remain loyal to national brands
- strong trade unions\* that oppose many of the new working practices implemented by *Wal-Mart* at its German stores
- consumer resistance due to cultural differences in retailing practices
- an unfavourable German external environment with low levels of economic growth.

National rival, *Metro*, hopes to use the *Wal-Mart* deal to increase its market share with over 640 stores across Germany. It intends to increase profitability through significant internal economies of scale, rationalisation and cost-cutting measures. *Metro* is waiting for approval from the government department that sanctions takeovers and mergers. Several stakeholder groups have expressed concern about the proposed sale, believing that *Metro* will have too much power in the retail sector.

Retail analysts suggest that *Wal-Mart* should have stayed in Germany, especially as the sale resulted in a loss of \$1 billion. They believe that this withdrawal will negatively affect *Wal-Mart's* brand image in Europe and globally. They argue that *Wal-Mart* should have looked at alternative marketing strategies and joint-ventures with German domestic retailers.

[Source: adapted from "Wal-Mart packs its bags after Germans pack theirs", Gerrit Wieseman, *The Australian*, 31 July 2006]

---

\* trade union: an association that represents the interests of employees in the workplace.

- (a) (i) Define the term *economies of scale*. [2 marks]
- (ii) Explain **two** types of internal economies of scale that *Metro* may benefit from after buying *Wal-Mart's* stores. [4 marks]
- (b) Explain why several stakeholder groups are concerned about the proposed sale of *Wal-Mart's* stores to *Metro*. [4 marks]
- (c) Evaluate *Wal-Mart's* decision to withdraw from the German market. [10 marks]

## 2. Protect Ltd

*Protect Ltd* is an Australian leisure clothing company. It imports materials from Asia to produce high quality clothing used by walkers and joggers. It has a large share of the domestic market, but in recent years also exported to Europe. These exports now represent 60% of all sales revenues.

The research and development department has invented a new lightweight, breathable waterproof fabric. Initial primary and secondary market research has shown very positive results from existing customers and identified potential applications to a range of sports markets. To manufacture new garments using this fabric, *Protect Ltd* will need new manufacturing equipment. The research and development department believe that it can improve the fabric further to provide the strength necessary for contact sports such as rugby and American football.

The board of directors recently identified three potential strategic options:

1. As the sports market is highly competitive, sell the patent for the new fabric to a leading sportswear manufacturer for \$10 million.
2. Purchase machinery at a cost of \$2 million to manufacture the new fabric as outdoor clothing. The estimated success of this option is 80% with returns of \$20 million. However, the failure of the product in the market place would result in a loss of \$5 million.
3. Conduct further research and development into improving the fabric for sports use. This would cost \$2 million. Failure to produce a suitable fabric would result in a loss of \$5 million. However, it is believed that there is a 60% chance of success. If a suitable fabric is produced then the firm would have another choice. They could either sell the patent for the improved fabric for \$25 million, or choose to manufacture it themselves at a cost of \$2 million. If they choose to manufacture, the estimated chance of a successful market launch is 50% with estimated returns of \$72 million. However, if the market launch proves a failure, they would make a loss of \$8 million.

The board of directors are concerned about the economic conditions in Europe, with the expectation of increases in inflation and interest rates. Asian currency markets are also volatile with Asian exchange rates expected to rise.

- (a) Define the term *primary market research*. [2 marks]
- (b) Prepare a decision tree to show the three options available to *Protect Ltd*, the expected values of each, and identify the most profitable option. [8 marks]
- (c) With reference to the external environment and the decision tree prepared in (b), recommend an appropriate course of action for *Protect Ltd*. [10 marks]

### 3. Fun-Games

*Fun-Games* is a well known national private limited company, which prides itself on its innovative computer games and dedicated workforce. A recession is predicted for the coming three years in the domestic economy, so the managers of *Fun-Games* are considering expansion into overseas markets. The preferred option is expansion into nearby countries that are also members of a Free Trade Area\*, although research showed that the exchange rate had fluctuated significantly in the last few years.

While accepting the need for a growth strategy, the marketing director is worried about *Fun-Games*' lack of experience of operating in overseas markets; cultural, linguistic and social difficulties may be encountered. The financial director is worried about lack of funds for expansion. The managers of *Fun-Games* are considering the best option for external expansion and intend to use sales trend data from the previous seven years, to help make a decision.

*Fun-Games* computer games sales record: 2001-2007

Financial year	Sales
2001	5000 units
2002	5500 units
2003	4500 units
2004	8600 units
2005	9100 units
2006	9300 units
2007	11 000 units

---

\* Free Trade Area: a group of countries that have eliminated tariff restrictions in order to trade together more easily.

- (a) Describe **one** limitation in the use of the sales forecasting model for *Fun-Games*. [2 marks]
  
- (b) Using three years moving average:
  - (i) Calculate the sales trend, the yearly variation and the cyclical variation. *(Show all your working)* [5 marks]
  - (ii) Construct a graph using the sales trend figures from (i) and use it to forecast the sales trend figure for 2009. *(Show all your working)* [3 marks]
  
- (c) Advise the managers of *Fun-Games* which method of entry into overseas markets should be used. [10 marks]

#### 4. The new organization

Fifty years ago William Whyte wrote a book called “The Organization Man”. He thought that “traditional organizations” rewarded long service, obedience and loyalty. Their structure was characterized by a head office, which controlled both strategy formulation and its implementation. This system of control was represented by a tall hierarchy with a long chain of command.

The company that most closely illustrated this traditional organization was *IBM*. Today, however, 50% of *IBM*'s employees have worked for the company for under five years; 40% of its 320 000 employees are “mobile” and spend at least one day a week working away from an *IBM* site; and about 30% are women. This transformation has been enabled by developments in information and communications technology, the globalization of production and sales, and the shift of functions to subcontractors through outsourcing and joint-ventures. “The Organization Man” has become “The Networked Person”, who is always on the move with a laptop computer and a mobile phone. Many employees no longer have their own personal office space provided by their employer. The workforce is as a result more flexible in terms of location and working hours.

These changes have also allowed businesses to adapt their structures and operations, but have sometimes led to unexpected problems. Twenty years ago, *Motorola*, a co-inventor of the mobile phone, was a tightly centralized business. Three men in its headquarters were in control of almost everything. As the company grew, they decentralized and flattened the hierarchy. However, by the mid-1990s the business was growing so fast it was impossible to control. In 1998 the company made 25 000 people redundant and returned control to their headquarters.

As *Motorola* have become more global, they have adapted their traditional structures by appointing local managers to take account of different national markets and tastes. However, some commentators argue that these structures are more complex and inefficient and have led to “conflict and confusion”.

[Source: adapted from *The Economist*, January 2006]

- (a) Define the term *decentralization*. [2 marks]
  
- (b) Explain how technological change has affected the way that global businesses operate. [8 marks]
  
- (c) Evaluate the suitability of traditional organizational structures for advanced technology firms such as *IBM* and *Motorola*. [10 marks]

## 5. The quest for customer satisfaction

What does *Mercedes-Benz* have in common with *H.J.Heinz* and *Coca-Cola*? The obvious response is a strong brand, but what creates this strength? The three companies are among the top ten US organizations for customer satisfaction and that is an important indicator of market strength and financial success.

Keeping existing customers costs much less than acquiring new ones. The existing customer base is thus a significant intangible asset. However, firms need to understand the customers they want to retain. Susan Fournier, a researcher from the University of Harvard, says that “a relationship is not just getting a newsletter, responding to a questionnaire or holding a frequent-buyer card. It has to do with product quality, consistency and brand image”.

Research by the US retailer, *Sears*, identified a clear correlation between employee attitudes, customer attitudes and financial results. As employee motivation improved, so did sales. The research showed that introducing programmes of Total Quality Management can increase employee loyalty, when the process includes genuine participation, job enrichment, collective decision-making, self-managed teams and an appropriate reward system.

The six most important questions of the *Sears* employee survey concentrated on individual employee’s attitudes to their job:

1. How does the amount of work you are expected to do influence your attitude to your job?
2. How do your physical working conditions influence your attitude to your job?
3. How does the way you are treated by those who lead you influence your attitude to your job?
4. Do you like the kind of work you do?
5. Does your work give you a sense of accomplishment?
6. Are you proud to say you work for the company?

[Source: adapted from: <http://www.thinkingmanagers.com>]

- (a) Define the term *intangible asset*. [2 marks]
- (b) Explain how “introducing programmes of Total Quality Management” can help develop “product quality, consistency and brand image” in companies like *Sears* and *Mercedes-Benz*. [8 marks]
- (c) Discuss how *Sears* can improve efficiency, productivity and customer service. Use relevant motivation and leadership theories and the questions asked in the *Sears* survey to support your answer. [10 marks]

## 6. Tesco goes green

In a recent report to shareholders, the chief executive of *Tesco*, the biggest supermarket chain in the UK reported it had increased sales by 13.2% and pre-tax profit by 16.7% in the last 12 months. He also noted that cost increases were likely in the coming year with little opportunity to raise prices due to strong competition.

The chief executive responded to critics of its significant internal expansion by announcing plans to invest in environmental projects. Critics argue that these investments are due to a 60% rise in energy costs last year, and that they are not purely motivated by environmental concerns.

To counter these criticisms, the chief executive announced plans to:

- install more wind turbines on stores and distribution depots
- use solar power to generate electricity in the stores
- double the amount of recycling facilities at the stores
- convert the entire fleet of 2000 lorries to more environmentally friendly fuels.

Pressure groups say that *Tesco* is still a long way from being a truly environmentally and socially responsible company because of:

- its rapid growth (it has built many supermarkets in the UK and around the world)
- its sourcing of products from overseas
- the threat it poses to small independent retailers.

[Source: adapted from “Tesco’s growth slips as cautious consumers catch up with giant”, Sara Butler, “Stores to go green with cuts of energy usage”, *The Times*, 26 April 2006 and “Lorries in fuel switch as Tesco takes the green road”, Jenny Davey, *The Sunday Times*, 17 December 2006]

- (a) Define the term *socially responsible organization*. [2 marks]
- (b) (i) *Tesco* has “increased sales by 13.2% and pre-tax profit by 16.7%”. Comment on how it is possible for profits to increase at a faster rate than sales. [4 marks]
- (ii) Explain **one** advantage and **one** disadvantage of *Tesco* using internal as opposed to external methods of growth. [4 marks]
- (c) To what extent will *Tesco*’s decision to “invest in environmental projects” enable the organization to position itself as socially responsible and to create a competitive advantage? [10 marks]
-