



22115011



**BUSINESS AND MANAGEMENT  
HIGHER LEVEL  
PAPER 1**

Thursday 19 May 2011 (afternoon)

2 hours 15 minutes

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**INSTRUCTIONS TO CANDIDATES**

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

**SECTION A**

Answer **two** questions from this section.

1. (a) (i) Identify **two** external stakeholders of *Reach Out*. [2 marks]
    - (ii) Outline a possible interest of **one** of *Reach Out*'s external stakeholders identified in part (i). [2 marks]
  - (b) Construct a fully labelled organizational chart of *Reach Out* after the appointment of Andrew Grandin. [4 marks]
  - (c) Analyse the advantages **and** disadvantages for *Reach Out* of accepting the sponsorship offer from *N-Pharma* (**Option 3**). [7 marks]
2. (a) Neil Johnson has prepared a business plan for *Reach Out* (line 31). Identify **four** elements of a business plan. [4 marks]
  - (b) With reference to *Reach Out*, distinguish between a vision statement and a mission statement (lines 44–47). [4 marks]
  - (c) Analyse the importance of information and communication technology (ICT) in the creation **and** operations of *Reach Out*. [7 marks]
3. (a) Define the term *corporate social responsibility* (line 138). [2 marks]
  - (b) Identify **two** possible indirect costs of *Reach Out*. [2 marks]
  - (c) Using information from Appendix 1,
    - (i) calculate the total cash receipts **and** the closing balance at the end of September 2010 if all figures follow the same pattern as in the previous months. [2 marks]
    - (ii) calculate the total cash receipts **and** the closing balance at the end of September 2010 if Neil Johnson's proposal to ask families to pay higher fees (lines 121–124) is implemented that month. [2 marks]
  - (d) Examine the success of **two** elements of the marketing mix used by *Reach Out*. [7 marks]

**SECTION B**

Answer *the compulsory* question from this section.

4. (a) Outline **two** features of public-private partnerships (*line 22*). [4 marks]
- (b) With reference to Laura Chan and Neil Johnson, explain the difference between leadership and management. [4 marks]
- (c) With reference to *Reach Out*, explain **two** benefits of having a family brand (*line 126*). [4 marks]
- (d) Using Lewin’s force field analysis model, discuss the differences between Laura Chan’s and Neil Johnson’s views about the growth of *Reach Out*. [8 marks]

**Additional information**

*There is no additional information in this paper for Sections A and B.*

**SECTION C**

Answer *the compulsory question from this section.*

**5. 7 months later ...**

*Reach Out's* financial situation under Neil Johnson's control was secure and Andrew Grandin was coping better with managing the therapists. In March 2011, *Reach Out* received a prize for its work in raising the awareness of autism (*Item 1*). Laura Chan began to appear on several television shows. Her blog was becoming increasingly popular. *Reach Out* had also begun to sell PECS cards at a reduced price of \$88.

However, by conducting a new STEEPLE analysis (*Item 2*), Neil became aware that three new competitors, private publishing companies X, Y and Z, were also planning to sell PECS cards to parents at an even lower price than *Reach Out's* \$88. Neil also learned that there was a considerable change in the external environment, especially in social attitudes towards autism. Despite the considerable brand loyalty to *Reach Out*, recent comments on Laura's blog (*Item 3*) revealed that a number of families were thinking of purchasing PECS cards from the new competitors and were starting to question *Reach Out's* ethical credentials.

Laura was concerned. She felt that the new companies were taking advantage of the goodwill generated by *Reach Out*. Unless quick action was taken, *Reach Out's* mission statement would be compromised. Although she did not understand the full implications of predatory pricing for the PECS cards, Laura argued that they should further reduce *Reach Out's* prices. Neil responded that the current changes in social attitudes to autism would ensure that all providers of PECS cards would benefit. The mission and vision of *Reach Out* need not change. Without informing Neil, Laura began giving interviews to the national media and stating that *Reach Out* was the only "true ethical" provider of PECS cards.

To produce its PECS cards, *Reach Out* was using a local printing company that employed adults with autism. Neil contacted two overseas producers of PECS cards to obtain information on production costs (*Item 4*). *Reach Out* could outsource production overseas in order to lower the price of its PECS cards. Neil considered that this strategic move could benefit *Reach Out*, allowing them to continue to be a price leader in the provision of PECS cards. In their last meeting, Laura and Neil argued yet again. Laura did not agree with the strategic move and its impact on *Reach Out's* stakeholders.

*(This question continues on the following page)*

*(Question 5 continued)*

- (a) Referring to Item 2, identify **two new** additional factors that Neil Johnson could include in his STEEPLE analysis of *Reach Out*. *[2 marks]*
  
- (b) Explain how changes in social behaviour towards autism (*Items 1 and 2*) could impact on *Reach Out* and its competitors. *[7 marks]*
  
- (c) Analyse the appropriateness for *Reach Out* of using a predatory pricing method for its PECS cards. *[9 marks]*
  
- (d) Using information contained in the case study and Items 1 to 5, discuss whether *Reach Out* should outsource the production of its PECS cards to an overseas producer as part of a new strategy. *[12 marks]*

**Additional information is on the following pages.**

## Additional Information

### Item 1: Extract from *The Daily News*, March 2011

*Reach Out*, a company started by a single parent in 2010, was today awarded a prize for its work in raising awareness of autism, which affects one child in a hundred. In accepting the prize, Laura Chan promised that she would use the prize money to help as many families as possible to cope with this difficult condition. She thanked the awarding committee for its generosity. Ms Chan was pleased with the changes in social attitudes towards autism. She fully supported a recent government announcement that children in schools with autism would be given as far as possible the same access to education as other children as part of its equal opportunities legislation. Ms Chan still feels that more can be done to help children with autism.

### Item 2: Extract from Neil's new STEEPLE analysis

#### Social factors affecting *Reach Out*

- Greater awareness of autism through media celebrities who have come forward to state that they have a child with autism.
- More schools now have specialist autism classes with additional teaching staff employed to work with them.

#### Economic factors affecting *Reach Out*

- Three new competitors (companies X, Y and Z) who have decided to sell PECS cards, now imply the price elasticity of *Reach Out's* PECS cards is 4.2.
- The economy is slowly recovering after one of the longest recessions since 1945. However, the threat of unemployment remains high.

#### Political factors affecting *Reach Out*

- Increase in government funding in the health system allowing doctors to diagnose children with autism earlier.
- As part of an equal opportunities programme, government is announcing that all schools will have to allocate part of their budget to providing special needs classrooms.

### Item 3: Extracts of replies to Laura's blog

"Thank you for your great advice Laura but given that my husband has recently been made redundant, we feel that we will have to purchase our next set of PECS cards from company Z for \$64." A Fulton.

"With no government support, we think that our son's best interests are being served by ordering the PECS cards from company Y for \$68. Is there any way *Reach Out* could match their prices?" P Millor.

"I saw you on the television last night. You must be making lots of money. Come on *Reach Out* surely you can do better, after all you are non-profit and your competitors are private publishing companies?" B Wong.

"Watched the show. Is all the prize money really going to the families?" K Singh.

**Item 4: Cost to *Reach Out* of producing PECS cards, April 2011**

Pack of 50 PECS cards	
Current local producer	\$80
Outsourced overseas producer 1	\$24
Outsourced overseas producer 2	\$28

**Item 5: Extract from *The Business News*, April 2011: “The gains from outsourcing operations are unclear”**

A leading group of business experts have carried out a survey of small to medium sized businesses and discovered that the gains from outsourcing operations to lower cost overseas suppliers are not always clear. Whilst it was acknowledged that wages and other direct costs were significantly lower, a number of concerns around quality control and productivity were raised, possibly cancelling out some of the benefits. The group also identified that other factors such as cultural differences, language barriers and exchange rate volatility meant that the decision to move operations to a subcontractor was not always a straightforward one.