Diploma Programme
Programme du diplôme
Programa del Diploma

Business management
Higher level
Paper 2

Friday 20 May 2016 (morning)

2 hours 15 minutes

Instructions to candidates

- Do not open this examination paper until instructed to do so.
- A clean copy of the **business management formulae sheet** is required for this examination paper.
- Section A: answer one question.
- Section B: answer two questions.
- Section C: answer one question.
- A calculator is required for this examination paper.
- The maximum mark for this examination paper is **[70 marks]**.

2216 – 5012

7 pages

International Baccalaureate
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Section A

Answer **one** question from this section.

1. Fair Coffee (FC)

David is about to open a small coffee shop, *Fair Coffee* (*FC*), at a central city location. On opening day *FC* will have a stock level of 500 kg of coffee beans. David estimates that the coffee beans will be used at a constant rate for the first six months of operation.

David's planned stock management figures for the coffee beans are shown below:

Maximum stock level	500 kg
Minimum stock level	200 kg
Re-order quantity level	350 kg
Re-order quantity	300 kg
Quantity used per month	150 kg

Lead time for delivery of the coffee beans: 1 month.

(a) State **two** elements of the **extended** marketing mix (seven Ps) for *FC*. [2]

(b) Using the information in the table, construct a fully labelled stock control chart for *FC*, for the first six months of operation. [4]

(c) A delivery of coffee beans was 1 month late, arriving on the last day of the seventh month rather than the last day of the sixth month. Using figures from the chart you constructed in part (b), explain the effects of:

(i) the late delivery on *FC*'s stock level **and**; [2]

(ii) the late arrival delivering **only** 75 kg of coffee. [2]

2. Aroma Corporation (AC)

Aroma Corporation (*AC*) is a mass-market cosmetics company that produces soaps. Concerned about falling market share and profit, *AC* conducted new market research.

The senior management team is considering two strategic options.

- **Option 1**: research and develop new environmentally friendly soaps
- **Option 2**: buy new machinery to produce more of the current products

The probabilities, forecast costs and revenues of each option are given below:

Option 1	**Forecast costs**	**Forecast revenue if successful** **Probability: 0.45**	**Forecast revenue if not successful** **Probability: 0.55**
research and develop new environmentally friendly soaps	$990 000	$1 700 000	$550 000

Option 2	**Forecast costs**	**Forecast revenue if successful** **Probability: 0.60**	**Forecast revenue if not successful** **Probability: 0.40**
a) buy new machinery **without** training	$450 000	$1 000 000	$250 000
b) buy new machinery **with** training	$475 000	$1 250 000	$200 000

(a) Describe **one** method (source) of secondary market research that *AC* could have used. [2]

(b) Construct a fully labelled decision tree, calculate the predicted outcome for each option and identify the best option for *AC* (*show all your working*). [6]

(c) Explain **one** limitation of using a decision tree as a planning tool for *AC*. [2]

Section B

Answer **two** questions from this section.

3. BVC

BVC manufactures canned energy drinks. It produces the market leading energy drink, Beta+, which is sold directly to, and exclusively in, sports clubs. *BVC* encourages intrapreneurship and innovation within its organization.

To purchase Beta+ legally, the consumer has to be over the age of 18. However, many younger teenagers illegally purchase these drinks. Sales of Beta+ have grown dramatically.

To have legal sales to teenagers aged 17 and below, *BVC* created Beta Lite, which has a much lower caffeine and sugar content than that of Beta+. Beta Lite will be sold using long distribution channels and to a range of retail outlets.

Initial sales of Beta Lite were disappointing. The marketing manager argues that Beta Lite is not innovative and is only adaptively creative. According to market research, consumers were confused between Beta+ and Beta Lite because the packaging is so similar. Many younger consumers were frustrated because they thought they were purchasing Beta+ when buying Beta Lite. Using social media, they launched a "Ban Beta Lite" campaign.

BVC's management were unprepared for this consumer reaction. To overcome this criticism and to boost sales of Beta Lite, two proposals are being considered:

- **Proposal 1**: launch a guerrilla promotional marketing campaign for Beta Lite.
- **Proposal 2**: completely redesign the packaging of Beta Lite.

(a) Describe **one** feature of intrapreneurship. [2]

(b) Explain why the marketing manager considered Beta Lite to be adaptively creative rather than innovatively creative. [4]

(c) Explain **one** advantage and **one** disadvantage for *BVC* of using long distribution channels for Beta Lite. [4]

(d) Discuss the two proposals to overcome the criticism of Beta Lite and to boost its sales. [10]

4. Vinn

Vinn is an American public limited company. It mass-produces jeans sold worldwide. Twelve years ago, production was offshored to China and Turkey to reduce manufacturing costs. To benefit from economies of scale, *Vinn* sells standardized regular-fit jeans. *Vinn* uses an identical marketing mix globally.

Despite the global popularity of American jeans, *Vinn* has experienced a significant fall in demand due to:
- customer complaints about poor quality jeans
- economic recessions in *Vinn*'s main markets. However, economic forecasts expect improvements within two years
- increased global competition of mass-produced clothes
- anti-globalization pressure groups. For example, a local pressure group, "B-Local", has criticized *Vinn*'s undifferentiated advertising campaigns as inappropriate for all international markets and cultures.

In addition, *Vinn*'s management is worried about labour costs in China rising faster than the United States (US). It also has communication problems with its offshored employees.

Vinn's management decided to re-shore back to the US and completely change its strategic focus. Recent market research has revealed a niche market: some customers in North America are willing to pay high prices for individually designed and produced jeans. To create a new competitive advantage, *Vinn* will aim for different market positioning by using highly skilled, creative fashion designers located in major American cities. Cost-effective production of individually designed jeans requires specialized technology currently available in the US. *Vinn* will no longer mass-produce jeans.

(a) Define the term *offshoring*. [2]

(b) Explain **one** advantage and **one** disadvantage for *Vinn* of using an identical marketing mix globally. [4]

(c) Explain **one** advantage and **one** disadvantage for *Vinn* of operating as a public limited company. [4]

(d) Discuss *Vinn*'s decisions to re-shore back to the US **and** to produce only individually designed jeans. [10]

5. JustJet (JJ)

JustJet (*JJ*) is a leading European airline. It operates low-price flights across Europe branded as JustJet. Currently it only offers an economy service and charges for on-board meals and drinks. JustJet has strong brand awareness in Europe. The business is very profitable. However, the economy "no frills" market has saturated.

After reviewing the results of focus groups, the *JJ* board of directors proposed launching a second service, called JustJetplus (JJplus). This service will offer first-class-only flights to non-European destinations. Between 2006 and 2008 other airlines offering a first-class-only service failed. *JJ*'s directors believe its brand name and financial strength are strong enough to succeed.

JJ will purchase airplanes with first-class specifications only for the new JJplus service. Passengers will have first-class seats that convert into beds, individual tablet computers, high-quality food and free Wi-Fi. Although JJplus will charge expensive first-class fares for all seats, its prices will nevertheless be lower than the first-class tickets offered by their competitors. Flights will be daily to non-European destinations, such as New York and Brazil, Russia, India and China (BRIC).

The target market consists of two market segments:
- vacationers seeking luxury travel at a lower price than the first-class tickets offered by competitors
- business flyers, such as entrepreneurs from BRIC countries.

To break even, JJplus must sell 90 % of the seats on each flight.

(a) Define the term *market segment*. [2]

(b) Explain **one** advantage and **one** disadvantage for *JJ* of using focus groups as a method of market research. [4]

(c) Using the Ansoff matrix, explain *JJ*'s strategy of offering the first-class-only service, JJplus. [4]

(d) Evaluate *JJ*'s proposal to launch the JJplus service. [10]

Section C

Answer **one** question from this section. The organizations featured in sections A and B and in the paper 1 case study may not be used as a basis to your answer.

6. With reference to an organization of your choice, discuss the impact of **innovation** on operations management **strategy**. [20]

7. With reference to an organization of your choice, examine the impact of **culture** on organizational **ethics**. [20]

8. With reference to an organization of your choice, examine the impact of **globalization** on organizational **change**. [20]