

Business management
Higher level
Paper 2

Friday 10 November 2017 (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]**.

Section A

Answer **one** question from this section.

1. Pelican Pies (PP)

Pelican Pies (PP) produces high-quality pies that have limited brand loyalty outside of their local market. The prices of the pies are higher than those of *PP*'s competitors.

Table 1: Selected financial information for *PP* for the year ending 30 April 2017.

Number of pies sold	8000
Price of each pie sold	\$4.00
Cost of goods sold per pie	\$1.75
Expenses	
• Electricity per month	\$200
• Rent of premises per quarter	\$1000
• Promotional expenses per year	\$1000
8 % interest per year paid on a loan of	\$40 000
Tax	25 % of profits

For 2018, *PP*'s owner, Austin, is looking to increase sales beyond the local market by lowering prices and spending a greater proportion of *PP*'s promotional budget on above-the-line methods such as regional newspaper advertisements. To finance this type of promotion, Austin will have to increase his loan amount by \$10 000.

Table 2: Selected financial information for the year ending 30 April 2018.

Number of pies sold	20 % increase on 2017 figure
Price of each pie sold	30 % decrease on 2017 figure
Cost of goods sold per pie	\$1.75
Expenses	
• Electricity per month	\$200
• Rent of premises per quarter	\$1000
• Promotional expenses per year	200 % increase on 2017 figure
8 % interest per year paid on a loan of	\$50 000
Tax	25 % of profits

- (a) Describe **one** reason why brand loyalty would be important to *PP*. [2]
- (b) Construct a profit and loss account for *PP* for the year ending 30 April 2017 based on the figures in **Table 1** (*show all your working*). [4]
- (c) Construct a forecasted profit and loss account for *PP* for the year ending 30 April 2018 based on the figures in **Table 2** (*show all your working*). [4]

2. Tasty Cupcake (TC)

Luis and José have set up a partnership, baking and selling cupcakes directly to consumers and supermarkets. They called the business *Tasty Cupcake (TC)*. They used their savings of \$3000 as starting capital. The partners need an overdraft agreement from the local bank. The bank manager asked for a cash-flow forecast.

Luis has forecasted the following sales and cost figures for the first six months of operation, beginning in January.

Sales

- Average selling price of one cupcake: \$5.
- Sales of cupcakes: 1300 cupcakes in January and 1700 cupcakes per month from February
- 70 % of customers who purchase cupcakes will pay in cash. The supermarkets will buy the remaining 30 % of cupcakes on credit and pay one month later.

Costs

- Rent: \$6500, payable at the start of each quarter.
- Labour costs: \$750 per month.
- Raw materials: 50 % of sales revenue per month, paid in cash.
- Overheads: \$400 per month, paid in cash.

- (a) State **two** features of a partnership. [2]
- (b) Prepare a monthly cash-flow forecast for *TC* for the first six months of operation. [6]
- (c) Calculate *TC*'s forecasted net profit at the end of June (*show all your working*). [2]

Section B

Answer **two** questions from this section.

3. Pedro

Pedro is a farmer who operates as a sole trader in a developing country. Like other farmers in his community, he grows oranges, which are sold to buyers in developed communities and large cities. Working in the primary sector often results in very low income and poverty for some of the farmers. Most children do not go to school, as they are needed in the fields for manual work. Cooperation between the farmers in this community is very limited due to linguistic and cultural differences.

Recently, farmers' incomes have fallen further. Pedro has conducted social, technological, economic, environmental, political, legal and ethical (STEEPLE) analysis and identified two main external threats that are impacting on farmers' incomes:

- competition from orange producers from developed communities and large cities with improved technology and higher productivity rates
- a severe and sustained drought affecting the level of orange production in all developing countries.

Pedro would like to improve productivity as an orange producer. Investing in new technology is risky and would require extensive research and development. The internet is unreliable and Pedro is unable to raise funds for this investment himself to change current production methods.

Pedro has arranged an emergency meeting of local farmers. He proposes that all farmers in his community create an agricultural cooperative and collectively raise funds to invest in new capital-intensive farming methods. The investment in technology could allow them to diversify into the manufacturing of bottled orange juice drinks.

- (a) Define the term *productivity rate*. [2]
- (b) Explain how each of the two external threats arising from the STEEPLE analysis would have impacted on farmers' incomes in the developing world. [4]
- (c) Explain **one** cost **and one** benefit to Pedro of conducting extensive research and development. [4]
- (d) Examine Pedro's proposal to create an agricultural cooperative in his community rather than continuing to operate as a sole trader. [10]

4. Music Mania (MM)

Music Mania (MM) is an independent store selling new and used music compact discs (CDs), DVD films and music vinyl records. It is a sole trader business owned by André, who has 25 years of experience in the retail and music business. *MM* has loyal customers but its total revenue is falling. The store currently has a low market share in DVDs and vinyl records.

André decided to conduct some primary and secondary market research, as the entertainment industry is changing rapidly. He discovered that:

- the market for DVDs is in rapid decline
- CD sales are declining slowly but new releases still sell well
- *MM* has had to stock computer games, which are selling out very quickly, and the sales of new vinyl records are growing slowly.

André is accustomed to variations in sales but the current sales forecasts are, in his experience, the most worrying. He has decided to create an e-commerce website to increase his sales of new and used vinyl records and CDs. André is also aware that new free online music streaming and gaming sites are being launched.

André has only limited internal sources of finance to set up the website. Two new tactics to ensure future success for *MM* being considered are:

- to stop selling DVDs
- to increase below-the-line promotional spending on vinyl records.

- (a) Define the term *secondary market research*. [2]
- (b) Explain **one** advantage **and one** disadvantage for *MM* of using sales forecasting. [4]
- (c) Explain **one** cost **and one** benefit for *MM* of setting up an e-commerce website. [4]
- (d) Using the Boston Consulting Group (BCG) matrix, discuss the **two** new tactics André is considering to ensure *MM*'s future success. [10]

5. Green Clean (GC)

Green Clean (GC) is a private limited company. Its unique selling point (USP) is offering high-quality and reliable cleaning services by teams of professional cleaners who clean offices and houses.

GC has strong ethical objectives. They only use eco-friendly cleaning products and pay their employees fair wages. Labour turnover is low and many cleaners have worked for the company for over two decades.

However, the cleaning market has become very competitive. GC has been slow to react. Other cleaning companies are beginning to offer a wider range of services. GC's management has decided to introduce a new gardening service to create new revenue streams. GC will have to recruit professionally trained gardeners from wide geographical areas, as they are difficult to find. GC will have to pay these new gardeners at least 20% more than cleaners to attract them. GC has limited experience in recruiting employees other than cleaners.

The cleaners are becoming demotivated because they are unhappy about the difference in pay between cleaners and future gardeners. They believe that gardeners are not more skilled than cleaners but just have a different skill set. Human resource managers are concerned about the potential impact of demotivated cleaners and are looking for ways to improve morale. One option they are considering is to offer cleaners an employee-share ownership scheme. Shareholders, however, are opposed to this proposal.

- (a) Define the term *ethical objective*. [2]
- (b) Explain **one** advantage **and one** disadvantage to GC of having low labour turnover. [4]
- (c) Explain **two** possible steps in the recruitment process of gardeners for GC. [4]
- (d) With reference to **two** motivation theories, examine the motivation of cleaners at GC. [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, examine the impact of **innovation** on operations management **strategy**. [20]

 7. With reference to an organization of your choice, discuss the ways in which **globalization** can influence organizational **culture**. [20]

 8. With reference to an organization of your choice, discuss the ways in which **ethics** and **change** can influence human resource management. [20]
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