

Business management
Higher level
Paper 2

Monday 30 April 2018 (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. Visionary Toys (VT)

Visionary Toys (VT) produces highly innovative toys for children. *VT* began operation in January 2017 and its unique selling point/proposition (USP) is producing toy parts with a 3D printer. *VT* uses the reducing balance method of depreciation. 3D technology changes rapidly and the financial directors are also considering ways of reducing *VT*'s tax liabilities in 2018. The financial director presented financial information for *VT* at the end of 2017.

Table 1: Revenue and expense information for the year 2017 and balance sheet items at 31 December 2017

Cash	\$1000
Net fixed assets	\$27 000
Interest paid	\$250
Creditors	\$4000
Debtors	\$3500
Accumulated retained profit – end of 2017	\$10 000
Costs of goods sold	\$7500
Sales revenue	\$27 250
Short-term loans	\$1500
Overdraft balance	\$2000
Expenses	\$7000
Share capital	\$13 500
Dividends paid	\$2500
Long-term liabilities	\$5000
Stock of toy parts	\$4500

[Source: © International Baccalaureate Organization 2018]

- (a) Define the term *unique selling point/proposition (USP)*. [2]
- (b) (i) Construct a fully labelled balance sheet for *VT* for the end of 2017. [5]
- (ii) Calculate the acid test (quick) ratio for *VT* for 2018. [1]
- (c) Explain **one** reason for *VT* to use the reducing balance method of depreciation. [2]

2. Jill Anderson

Jill Anderson operates a restaurant. Although Jill’s meals are viewed as being excellent quality, sales are slowing. Jill is considering replacing existing meals with gluten-free meals. The following financial and forecast information is for the month of May 2018. Jill’s restaurant can only produce either existing or gluten-free meals.

Table 1: Existing meals

Average price of existing meals = \$8
Rent = \$2000 per month
Variable cost per unit of existing meals = \$5
Sales of existing meals served = 800 per month
Jill’s salary = \$400 per month, which is paid irrespective of the level of sales

Table 2: Estimated costs and price if Jill produces the gluten-free meals

Average estimated price of gluten-free meal = \$14
Variable cost per unit of gluten-free meals = \$10
Sales forecast of gluten-free meals = 1200 per month
Fixed cost increase for new machinery per month = \$400

A local gluten-free manufacturer, which is not part of Jill’s existing supply chain, has offered to supply already prepared gluten-free meals at \$8 per meal. Jill is unsure whether to make or buy the gluten-free meals.

[Source: © International Baccalaureate Organization 2018]

- (a) Define the term *supply chain*. [2]

- (b) Calculate:
 - (i) the total contribution of existing meals sold per month (*show all your working*); [2]
 - (ii) the total profit or loss on existing meals for May 2018 (*show all your working*); [1]
 - (iii) the forecast profit or loss if Jill decides to **make** and sell gluten-free meals (*show all your working*); [2]
 - (iv) the contribution per unit of a gluten-free meal if Jill decides to **buy-in** the gluten-free meals (*show all your working*). [1]

- (c) Using your answer from (b) (iii) and (iv), explain whether Jill should buy-in or make the gluten-free meals herself. [2]

Section B

Answer **two** questions from this section.

3. Speedy Delivery (SD)

Speedy Delivery (SD) is a private limited company that delivers freshly cooked meals by bicycle. *SD* only delivers. Restaurants subcontract *SD* to deliver meals to customers who place orders online and expect quick and efficient delivery. *SD* has been operating profitably for two years. Currently, it has the highest market share in the city.

SD is now facing two issues:

- It operates at 98% capacity utilization. Recently, some restaurant owners complained to *SD* that meals arrived late and cold to customers.
- The market for home delivered, freshly cooked meals is growing quickly and some new delivery companies have just entered the market.

The CEO wants to address the delivery quality issues and the threat of competitors, two of whom recently merged. He is considering an internal growth strategy involving investing in new electric scooters and employing more staff to deliver a greater number of meals more efficiently. *SD* must raise a large sum of finance. Major shareholders are in disagreement regarding the internal growth strategy.

The financial manager has provided some financial information.

Table 1: Current information

Gearing ratio	65%
Current ratio	0.9
Gross profit margin (GPM)	20%
Net profit margin (NPM)	9%
Return on capital employed (ROCE)	4%
Debtor days	90
Creditor days	60

Table 2: Predicted return on the investment

Average rate of return (ARR)	6%
Payback period	3.2 years

[Source: © International Baccalaureate Organization 2018]

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(Question 3 continued)

- (a) Define the term *market share*. [2]
- (b) Explain **one** advantage **and one** disadvantage for *SD* of working at almost full capacity utilization. [4]
- (c) Explain **one** advantage **and one** disadvantage for *SD* of using an internal growth strategy. [4]
- (d) Discuss **two** appropriate sources of finance for *SD* to purchase the scooters. [10]

4. Healthy Start (HS)

Tom Donat started *Healthy Start (HS)*, a national chain of stores preparing and selling healthy snacks, which are produced in batches. *HS*'s target market is teenagers and young adults. Tom was concerned about high levels of fast food consumption and youth unemployment. His vision statement for *HS* is: "To encourage life-long healthy eating habits and to train school leavers (drop outs) in acquiring work skills".

HS hires many school leavers without qualifications. Because of the valuable social service that *HS* provides, an independent online media provider will feature *HS* in a new online reality TV show.

All employees, including managers, start at the lowest level of the organizational hierarchy and train on the job. Job enlargement, job enrichment and intrapreneurship opportunities are available. 20% of all profits earned are put back into *HS* to finance these opportunities. Staff turnover is lower than the industry average.

Competition from global fast food restaurants has intensified. Their economies of scale mean that *HS* struggles to increase its market share. Online reviews indicate that some customers perceive *HS*'s snacks as healthy but overpriced and with small-sized portions.

Tom is considering two options:

- **Option 1:** Implement flow production. *HS* will buy new technology and assign each employee to a specific job on the production line. *HS* will increase portion sizes and keep prices the same.
- **Option 2:** Implement a new social media marketing campaign linked to the new online TV show. The campaign will focus on the health benefits of *HS*'s snacks.

[Source: © International Baccalaureate Organization 2018]

- (a) Describe **one** role of a vision statement for *HS*. [2]
- (b) Explain how the following can benefit *HS*:
- (i) job enlargement; [2]
 - (ii) intrapreneurship. [2]
- (c) Explain **two** possible economies of scale available to global fast food restaurants but not *HS*. [4]
- (d) Discuss the two options that Tom is considering for *HS* in response to the intense competition. [10]

5. Taxi-M (TM)

Taxi-M (TM) operates 2500 taxis in a developing country. All drivers are full-time employees and have a professional taxi license. Although not compulsory, *TM* regularly conducts safety inspections of the taxis. Though safe, most of *TM*'s taxis are old and *TM* charges high prices. Many customers complain.

However, a multinational company, *RE*, with offices around the world, has started to offer a mobile application (app) called *Best-Taxi (BT)*. Using their mobile phones, passengers can use *BT* to book and pay for a car journey. Any car owner can offer journeys through *BT*. For security reasons, the *BT* app registers passengers' and drivers' personal details.

TM's sales are falling and profits are down. A number of *TM*'s drivers are becoming demotivated. Facing lower incomes, poor management and rumours of redundancies, many loyal drivers have left to offer taxi services using their own cars and the *BT* app. Some of these drivers are earning considerably higher wages than before.

The situation for *TM* appeared critical. However, local media have reported a higher rate of road accidents by *BT* drivers than licensed taxi drivers. Several of its drivers have assaulted and robbed customers. In response, *TM*'s management decided to downsize and differentiate itself from *BT* by positioning its service as a high-price, high-quality traditional taxi service. *TM* will:

- sell older cars and lease new luxury cars
- develop a unique selling point/proposition (USP) emphasizing comfort and safety.

Customers can book taxis by telephone and by stopping them in the street. *TM*'s target market will be business people, higher income families and passengers concerned about safety.

[Source: © International Baccalaureate Organization 2018]

- (a) Define the term *redundancy*. [2]
- (b) Explain **one** positive **and one** negative impact of the multinational company, *RE*, on the developing country. [4]
- (c) With reference to Maslow's motivation theory, explain **two** reasons that some *TM* drivers left to drive for *BT*. [4]
- (d) Discuss the new strategy to differentiate *TM* from *BT*. [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 **globalization** on human resources **strategy**. [20]
 7. With reference to an organization of your choice, examine the impact of **ethics** on organizational **change**. [20]
 8. With reference to an organization of your choice, examine the impact of **innovation** and **culture** on an organization. [20]
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