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Business management
Higher level
Paper 1

Thursday 14 November 2019 (afternoon)

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 case study** is required for this examination paper.
- Read the case study carefully.
- A clean copy of the **business management formulae sheet** is required for this examination paper.
- Section A: answer two questions.
- Section B: answer question 4.
- Section C: answer question 5.
- A calculator is required for this examination paper.
- The maximum mark for this examination paper is **[60 marks]**.

Section A

Answer **two** questions from this section.

1. (a) Outline **two** advantages for *Accord* of using job/customized production. [4]
(b) Explain how *Accord* can differentiate Enrich from the products of its competitors. [6]
2. (a) Describe **two** reasons why secondary market research may not be useful to *Accord*. [4]
(b) Explain possible economies of scale that may apply to *ABC* but **not** to *Accord*. [6]
3. (a) With reference to *Accord*, outline **two** possible steps for Aran and Kayla in starting the business. [4]
(b) **Other than** a business angel (line 108), explain methods of external finance that *Accord* could use to increase production capacity (line 108). [6]

Section B

Answer the following question.

- 4. Problems are continuing with Enrich drinks. Aran is becoming increasingly frustrated with the lack of growth of sales. He always wants to succeed and is driven by the need to get tasks completed. The Enrich part of his life is not a success. He blames the workforce. The workforce does not share his vision. Employees are mainly part-time workers and parents who value jobs that enable them to fit work around school hours. As Aran has become more autocratic in his leadership style, labour turnover has increased. Last month, from a workforce of twelve, one retired and two left for what they called "better jobs".

There are also increasing problems with the quality of Enrich drinks, as batches of Enrich are rejected by the quality control department. Elsie, the manager of the production department, blamed suppliers, saying that Aran had damaged business relations with them due to his impatience. Elsie also blamed Aran for poor stock management. She has proposed total quality management (TQM) as a solution to these problems.

Detox

Accord decided to start the production and marketing of Detox, the green tea drink that helps athletes to relax. Detox proved to be very successful. Encouraged by the success and boosted cash inflow, Kayla is considering producing a range of snack bars based on Enrich and Detox flavours and recipes. *Accord* would use the Enrich brand name for the snack bars. The market for healthy snack bars is very competitive and dominated by a few large companies who spend large amounts of money on advertising. The market is growing rapidly – some market researchers estimate by 34 % *per annum*. There are many examples of small businesses entering the market successfully on a small scale. Kayla estimates that the proposal would involve an investment of \$100 000, with forecast net returns of \$80 000 for four years. Aran thinks that the money could be better spent on marketing Enrich drinks.

- (a) Define the term *labour turnover*. [2]
- (b) For Kayla’s proposal calculate:
 - (i) the payback period; [2]
 - (ii) the net present value (NPV) using a discount rate of 6 %*. [2]
- (c) With reference to *Accord*, explain **one** advantage **and one** disadvantage of using total quality management (TQM). [4]
- (d) Discuss whether Aran and Kayla should change the organizational culture of *Accord* to overcome the problems with Enrich drinks. [10]

*Discount factors at 6 %

Year	Discount factor
0	1.0000
1	0.9434
2	0.8900
3	0.8396
4	0.7921

Section C

Answer the following question.

5. *Accord* have not yet made a decision about producing a range of snack bars.

Kayla is certain that there is a market for the snack bar products. The snack bars would complement *Accord's* product portfolio. The investment required, according to Kayla's estimate (see Section B), is acceptable and she is certain that it is the right time for the business to grow. Her information on the market (see **Appendix 1**) is very positive. In contrast, she believes that it is too difficult to grow in the beverage market because of competition, so she would prefer to switch from drinks to snack bars. She likes owning the business and has very clear objectives for the future.

Aran is becoming increasingly frustrated. His idea of targeting a mass market for Enrich and Detox has been rejected by Kayla and other managers at *Accord*. His efforts to introduce total quality management (TQM) failed because employees resisted the change. He is interested in performance and not relaxation, so he does not like Detox as an idea for a product.

Aran has been approached by *Star Food (SF)*, a multinational company (MNC) that produces a range of food products including soft drinks. *SF* are interested in the Enrich brand name and *Accord's* contracts with sports centres. *SF* have offered to buy *Accord* for \$5 million. This is approximately five years of earnings for *Accord*. Kayla and Aran would keep the Detox part of the business. Aran would be happy to accept the offer, particularly given the risk that *Accord* may not survive (**Table 1**). Aran likes the certainty that the sale would bring. He would accept a small payment from Kayla to sell his share of the Detox business to her.

Table 1: Survival rates of small businesses (based on a survey of local businesses)

When small businesses fail	
Year 1	20 %
Year 2	34 %
Year 3	50 %
Year 5	50 %
Year 10	70 %
Why small businesses fail	
Cash flow problems	82 %
Insufficient demand	42 %
Wrong management team	23 %
Competition	19 %

(This question continues on the following page)

(Question 5 continued)

Appendix 1: Extract adapted from a Mintel report on sports nutrition food

“New research shows that in some countries, such as the UK, as many as one in four adults have consumed a sports nutrition product (drinks, bars *etc*) in the past 3 months. Sales are growing rapidly. The market is expanding beyond the elite sports people and gym fans. The products are increasingly attracting ‘lifestyle’ users who see these products fitting in with a healthy, active life style. There are plenty of opportunities for new developments of products.”

[Source: Mintel’s Attitudes towards Sports Nutrition UK 2016 report]

Using the case study and the additional information on pages 3 and 4, recommend whether *Accord* should start making and selling snack bars or whether Kayla and Aran should sell *Accord* to *SF*. A force field analysis of the options could help you in your answer.

[20]
