

**BUSINESS AND MANAGEMENT  
STANDARD LEVEL  
PAPER 2**

Thursday 9 May 2002 (morning)

1 hour 30 minutes

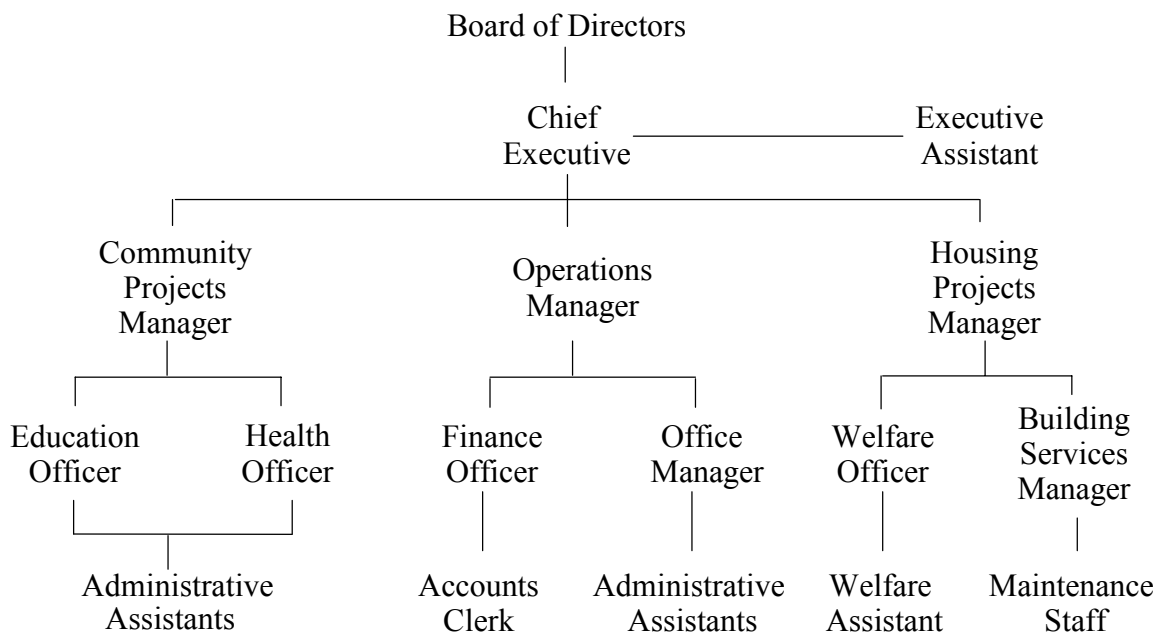
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**INSTRUCTIONS TO CANDIDATES**

- Do not open this examination paper until instructed to do so.
- Answer three questions.

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1. The diagram shows the organization chart for a charity, *KNDC*.



*KNDC* have just been given \$ 140 million from the government to improve a poor area of the capital city, by building new houses, shops and schools. The strength of the charity is the way in which they consult the community and involve them in the decision-making process.

The government are keen to see that *KNDC* match the money given to them using sponsorship from the private sector. The Board of Directors have recently agreed to accept \$ 6 million sponsorship to support information technology development in the new schools. The sponsoring company is a multinational tobacco company *Deval*. The Chief Executive has raised concerns as to whether this is “ethical and socially responsible”.

- (a) State **two** objectives of a charity. [2 marks]
- (b) Analyse the organization chart in terms of line-management responsibility and span of control. Use appropriate examples from the chart to illustrate your answer. [4 marks]
- (c) (i) Explain what is meant by an “ethical and socially responsible” firm. [2 marks]
- (ii) Write a memorandum (memo) from the Board of Directors to the Chief Executive outlining its concerns, and stating both positive and negative aspects of the decision to accept sponsorship from *Deval*. [6 marks]
- (d) Discuss **three** constraints that *KNDC* might experience when implementing the project, distinguishing between those it can control and those beyond its control. [6 marks]

2.

Dear Customers

Allow me to formally introduce my company, *Missan Motorcare*. In 1992 our holding company, **Kzaer Group**, established a trade office in Uganda, and in 1994 we were granted the distribution rights for Missan. *Missan Motorcare* is now the market leader for the supply of new vehicles and motorcycles in Uganda. In 1996, *Missan Motorcare*, received the distribution rights for Mozambique but decided to create franchise opportunities for local dealers. The franchise name became *Missan Motorcare*.

At *Missan Motorcare* we are totally committed to you our customer. Our mission statement is

“to be the leader in sales and distribution of automotive products and services in countries where we have distribution rights”.

At the same time we are adding value to the community and environment in Africa.

Yours sincerely

General Manager  
*Missan Motorcare*

**P.S.** Look out in 2003 for new and exciting innovations.

- (a) (i) Explain what is meant by a mission statement. [2 marks]
- (ii) Analyse how *Missan Motorcare*'s commitment to achieving their mission statement has enabled them to be successful in Africa. [4 marks]
- (b) *Missan Motorcare* in Mozambique is sold as a franchise operation.
- (i) Explain what is meant by a franchise. [2 marks]
- (ii) Discuss **three** advantages and **three** disadvantages for the distributor of this arrangement. [6 marks]
- (c) Evaluate **three** ways in which *Missan Motorcare* can ensure that they maintain their position as market leader and their good reputation for customer care. [6 marks]

3. Emma Bramwell runs *Party in a Box*, as a sole trader. She provides a local service running parties for children, taking the pain out of organizing for their parents. She sends out invitations, buys the food and arranges the entertainment. The materials are delivered in a box uniquely designed by Emma.

Emma now, however, wishes to diversify into personalized stationery packs for children. This will use her desktop publishing experience gained when designing invitations. She will need to take on a part-time member of staff to cope with the increase in business.

Emma plans to sell the packs at \$ 22 per pack, including postage.

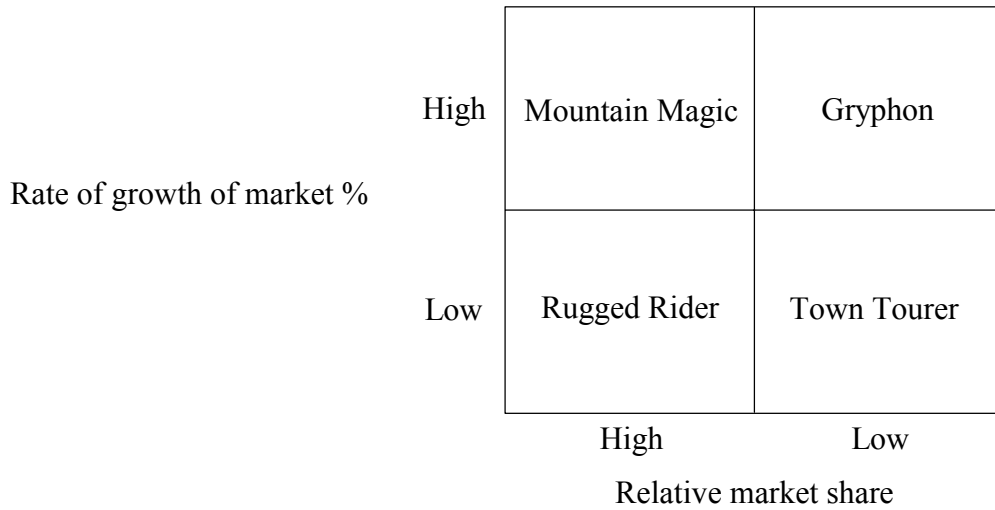
She will have the following costs:

Fixed Costs		\$
	Advertising	4 000
	New computer	3 000
	Staff	14 000
Variable Costs per pack		
	Printing	2
	Distribution	2
	Paper	8
	Envelopes	7

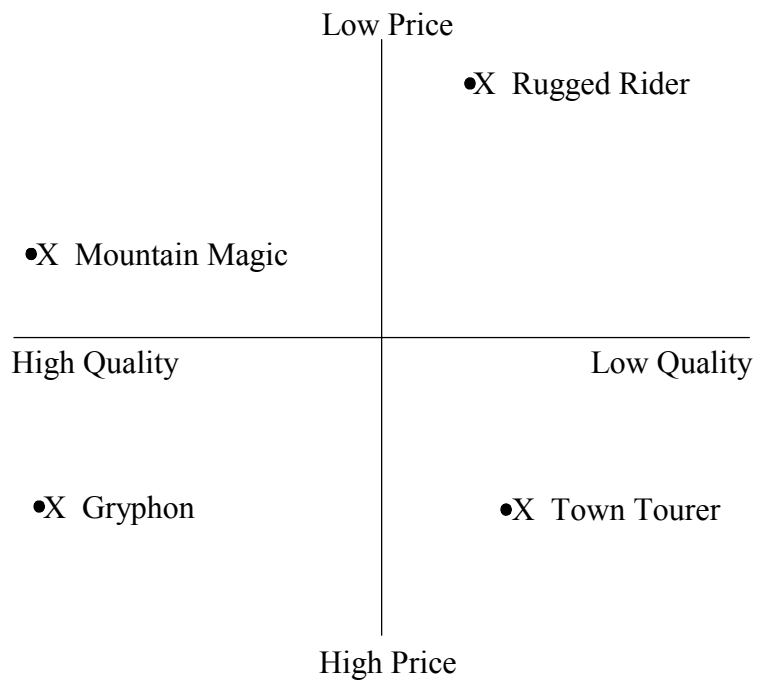
- (a) Explain the difference between fixed and variable costs. [2 marks]
- (b) Draw a break-even chart for *Party in a Box* and clearly mark the break-even point. [8 marks]
- (c) Calculate the margin of safety and profit at 12 000 packs. Clearly show your method of calculation. [4 marks]
- (d) Analyse **three** advantages and **three** disadvantages for Emma of expanding *Party in a Box*, and diversifying into a new product. [6 marks]

4. *Wheels on Fire* make bicycles. Displayed below is information on their main products.
- Mountain Magic – Launched in 2000
  - Gryphon – Launched in 2002
  - Rugged Rider – Launched in 1995
  - Town Tourer – Launched in 1981

**Figure 1 Boston Consulting Group Matrix**



**Figure 2 Positioning map**



*(This question continues on the following page)*

*(Question 4 continued)*

- (a) (i) Analyse the product portfolio of *Wheels on Fire*, using Figure 1 and Figure 2 to support your answer. *[9 marks]*
- (ii) Make recommendations to the company as to how they should develop each product. *[4 marks]*
- (b) Prepare a marketing strategy for Gryphon. *[7 marks]*

5. *Apex Systems* recycle and upgrade computers. In September 2001, the Managing Director took early retirement and a new appointment was not made until March 2002. This left six months without a Managing Director in charge of *Apex Systems*. During that time, problems occurred due to loss of productivity, increased wastage of materials, loss of orders and collection of debts.

The new Managing Director has called a board meeting to discuss the current financial position of the company and to make recommendations to improve the performance of the company. She intends to improve productivity, make cost savings and change some of the working practices in the company.

**Financial information for *Apex Systems* for the years 2000 and 2001:**

	Year 2000 \$ 000s	Year 2001 \$ 000s
Fixed assets	380	380
Stock	20	40
Debtors	12	18
Cash	8	4
Current liabilities	20	30
Sales revenue	800	1000
Cost of sales	600	750
Net profit	40	38
Net assets	400	412
Capital employed	400	412

- (a) Define
- (i) profitability
  - (ii) liquidity and
  - (iii) efficiency. [3 marks]
- (b) (i) Calculate **two** profitability, **two** liquidity and **two** efficiency ratios for 2000 and 2001. [6 marks]
- (ii) Use the ratios to evaluate the performance of the company in 2001, compared to 2000. [5 marks]
- (c) Analyse how the appointment of a new Managing Director will affect the performance of the company, in terms of productivity and making cost savings. [6 marks]