

**BUSINESS AND MANAGEMENT  
STANDARD LEVEL  
PAPER 2**

Tuesday 12 November 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.

**1. *The Roger Lewis School of Motoring***

*The Roger Lewis School of Motoring* provides driving instruction to people who would like to obtain a licence to drive a car. The target market is aged between 17 and 22 years and many of the customers are high school students and undergraduates.

Roger set up the business four years ago with his savings. He is now planning to sell his business as a going concern and has provided a summary of the relevant financial data (see below). In addition, Roger has emphasized to potential buyers of the business that most of the costs are fixed, so once these are covered the business is extremely profitable. Roger does not believe that the substantial tax increases on petrol (gas) announced by the government recently will have a significant impact on demand.

**Relevant Financial Data**

- Roger purchased 10 cars with cash at a cost of \$10 000 each. The flow of income from each car is \$2 700 per annum, and Roger expects this level of income to remain stable.
- Driving school cars are usually sold after 5 years for approximately \$2 500 each.

- (a) Using the financial data, calculate the payback period for a car to the nearest month. [2 marks]
- (b) Roger originally financed his business with his own savings. Compare and contrast this method of finance with alternative ways of raising the money. [6 marks]
- (c) (i) Distinguish between fixed and variable costs. [2 marks]
- (ii) To what extent do you agree with Roger that “most of the costs are fixed”? [4 marks]
- (d) Analyse **three** additional pieces of information that a potential buyer would need to have, to decide if *The Roger Lewis School of Motoring* is worth buying. [6 marks]

**2. Chong Seng Construction**

*Chong Seng Construction (CSC)* is a family business based in Kuala Lumpur, Malaysia. *CSC* employs approximately 300 workers from neighbouring countries that offer a source of inexpensive labour. These employees are hired as labour on a casual basis; if there is a decline in business they will not be employed and will receive no income. The managers at *CSC* are told to organise work based on the ideas of Frederick W Taylor and this seems to be a very effective method. However, full-time core staff in the business resent this style of management and *CSC* find it difficult to retain these employees. Those professionals who have left the business complain that there is a lack of communication at *CSC* and that the family business is autocratic.

- (a) Assess the advantages and disadvantages to *CSC* of hiring labour on a casual basis. [4 marks]
  
- (b) Outline the management ideas of Frederick W Taylor and explain why the company believes these methods to be effective. [6 marks]
  
- (c) Use motivational theory to explain the resentment felt by the professional employees at *CSC*. [6 marks]
  
- (d) Discuss the potential benefits that could arise at *CSC* from greater communication and participation in decision making. [4 marks]

**3. Cool Man Airconditioning**

*Cool Man Airconditioning (CMA)* is a New Zealand based manufacturer of air conditioning units for domestic and business usage. Intense competition from countries with low labour costs combined with an increase in the exchange rate value of the New Zealand dollar has meant that *CMA* has experienced low sales growth in recent years, despite growing demand for air conditioning. The Marketing Director at *CMA* has asked the board of directors to consider two proposals to address their current problems:

- undertake primary and secondary market research to identify the strength of the *CMA* brand and to identify the target market(s).
- research the potential for establishing joint ventures with air conditioner manufacturers in other countries. *CMA* would ask other companies to manufacture and distribute air conditioners under the *CMA* brand.

- (a) Identify and explain primary and secondary sources of data that would help *CMA* to determine the strength of their brand and their target market. [4 marks]
- (b) Explain why a stratified random sample is more appropriate than a random sample for *CMA*. [4 marks]
- (c) Analyse the factors *CMA* should consider when marketing its products internationally. [8 marks]
- (d) Discuss the potential advantages and disadvantages for *CMA* of establishing joint ventures. [4 marks]

4. *Extra Mozzarella*

Vitella Mazotta set up a takeaway Italian food outlet, *Extra Mozzarella*, in 1960. Vitella was very proud of the quality of her produce and would often donate any produce that did not meet her high standards to local charities. Having survived initial cash flow problems and established a reputation for high quality (especially for her deep pan pizza and wholemeal pasta), Vitella decided to expand her business. Vitella was reluctant to take on any partners so decided to expand her business through the franchise system. This proved to be a wise decision and *Extra Mozzarella* enjoyed spectacular growth resulting in the organization issuing shares on the stock exchange in 1990.

However, by 2001 *Extra Mozzarella* began to experience problems. Vitella felt that the company had introduced too many new products in recent years and these had diluted the consumers perception of the brand. In addition, Vitella felt that the company had several products with low market share and little potential for growth.

- (a) Discuss how the objectives of *Extra Mozzarella* are likely to have changed from 1960 to 2000. [5 marks]
- (b) Explain why organizations often have cash flow problems, especially in the first year of business. [4 marks]
- (c) Assess the potential benefits for Vitella of expanding *Extra Mozzarella* via the franchise system. [6 marks]
- (d) Explain how an understanding of product portfolio technique (for example Ansoff Matrix and Boston Matrix) could help *Extra Mozzarella* to overcome the problems they are experiencing. [5 marks]

**5. *No-Prisoners Footwear***

*No-Prisoners Footwear (NPF)* is a leading European sports footwear provider. The footwear is manufactured by suppliers in Asia and Latin America. The Head Office in London concentrates on promotion, new product design and finance.

In recent years *NPF* has been criticized by pressure groups who claim that *NPF* makes excessive profits by exploiting cheap labour in developing countries and by charging unfair prices for its products. A number of parents have complained to the media that their teenage sons have resorted to crime to help pay for a pair of the latest *No-Prisoners* training shoes.

To counter this criticism *NPF* has recently published its accounts in a number of newspapers and has emphasized the substantial funding *NPF* provides for under-privileged school children from developing countries. *NPF* has also argued that competitive pressures for the globalisation of business have left it with no choice but to produce overseas and to increase its sales base worldwide by entering more markets.

A summary of *NPF* accounts is shown below.

**Extracts from *NPF* balance sheet as at 1st June 2002**

		<b>\$ 000</b>
Fixed assets		3200
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		3200
Current assets	1650	
Less current liabilities	850	
Working capital		800
Net assets		4000

**Extracts from *NPF* profit and loss account for year ending 1st June 2002**

		<b>\$ 000</b>
Sales		1900
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Gross profit		1400
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Net operating profit		
(before interest and tax)		1120
Interest payable		10
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Net profit before tax		1110
Tax		250
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Profit after tax		860
Dividends		100
Retained profit C/F		760

*(This question continues on the following page)*

(Question 5 continued)

- (a) Calculate
- (i) the net profit (before interest and tax) margin [2 marks]  
and
  - (ii) return on capital employed. [2 marks]
- (b) Discuss the information you would need to determine whether “*NPF* makes excessive profits”. [6 marks]
- (c) Compare the different strategies that *NPF* could use to enter overseas markets. [6 marks]
- (d) Identify **four** stakeholders associated with *NPF* and explain the nature of any conflict between them that may arise. [4 marks]
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