



88055014

**BUSINESS AND MANAGEMENT  
STANDARD LEVEL  
PAPER 2**

Wednesday 16 November 2005 (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. Wide Water plc

*Wide Water plc* is a global conglomerate with interests in products including household electrical goods, plastics and airplane engines. In 1999 Bob Monkville took over as chairman and chief executive officer at *Wide Water plc*. Bob immediately decided that *Wide Water plc* had to make significant changes if the organization was to survive and grow in the twenty first century. After lengthy discussions with his regional directors Bob explained that *Wide Water plc* would:

- focus on those markets where it currently had a leading market position and an excellent reputation
- research markets with considerable growth potential
- close down or reform areas of the business that were under performing
- reduce the workforce by approximately 20 000
- flatten the organizational structure to face the challenges presented by globalization
- draft ethical objectives
- move into new and expanding markets such as insurance and finance
- relocate the production of household electrical appliances
- replace many of its middle managers that lacked the dynamism and energy to implement radical changes.

- (a) With reference to *Wide Water plc*, distinguish between their objectives, strategies and tactics and describe how these interrelate. [4 marks]
- (b) Assess the current position at *Wide Water plc* using SWOT analysis. [6 marks]
- (c) Explain **three** likely effects of globalization on *Wide Water plc*. [6 marks]
- (d) Explain **two** potential advantages for *Wide Water plc* of setting ethical objectives. [4 marks]

## 2. Gabad Designs Ltd

*Gabad Designs Ltd* are producers of calendars, posters and greeting cards. The Spanish-based company has enjoyed considerable success in the Spanish market but is now considering a range of strategies to maintain the growth of the company. Intense competition and innovation in the markets for calendars and posters has reduced profit margins and sales have started to fall. Sales of greeting cards continue to enjoy rapid growth.

The board of directors are currently considering two options:

**Option 1** is to launch a new product line selling greeting cards that play a musical greeting. Test markets in southern Spain have shown encouraging results and a product launch looks likely.

**Option 2** is to produce picture post cards for the tourist industry.

Cleo Segura, the marketing director, believes that with appropriate marketing *Gabad Designs Ltd* can continue to achieve its target of 10 % revenue growth per annum. Cleo is currently analysing primary and secondary data on consumer profiles and market segments to identify market opportunities.

- (a) Explain why the market research gathered by *Gabad Designs Ltd* might be unreliable. [6 marks]
  
- (b) Discuss how market segmentation and knowledge of consumer profiles can help *Gabad Designs Ltd* achieve its growth targets. [6 marks]
  
- (c) With reference to Options 1 and 2, explain the relationship between the product life cycle and the marketing mix. [8 marks]

**3. BN**

In June 2001 Dr Hugo Lorenzo, chief executive of *BN*, the world's largest conglomerate, left *BN* abruptly having been in the position for nine months. The *BN* organizational culture was to allow considerable freedom to regional directors as long as they achieved clearly defined financial targets. However, in practice, Dr Lorenzo used a very autocratic style of leadership with his fellow directors and would often overrule their decisions and fail to recognize their achievements. Dr Lorenzo always argued that *BN* offered the best pay and conditions, so managers had no reason to feel dissatisfied. Industry analysts believed that Dr Lorenzo's top down communication through e-mail and formal meetings stifled creativity and collaboration. This approach was deemed totally inappropriate for a rapidly changing business environment. In addition, Dr Lorenzo had a reputation for making *BN* excessively bureaucratic and hierarchical.

- (a) Explain **three** reasons why Dr Hugo Lorenzo may have adopted an autocratic style of leadership. *[6 marks]*
  
- (b) Using Herzberg's theory of motivation, explain why the strategy adopted by Dr Hugo Lorenzo led to dissatisfaction among his regional directors. *[4 marks]*
  
- (c) (i) Explain **three** causes of communication failure at *BN*. *[3 marks]*  
  
(ii) Evaluate solutions to the three communication failures you have identified in (c)(i). *[7 marks]*

**4. Ganstoni Enterprises**

The following data has been extracted from the internal records of *Ganstoni Enterprises*.

**Table 1**

Current assets	(\$000)
Stock	100
Cash	20
Debtors	50
Current liabilities	(\$000)
Creditors	40
Overdraft	40

**Table 2**

	\$
Annual rent	300 000
Materials per unit	100
Wages per unit	200
Selling price \$500 per unit	
Current output and sales 2000 units per year	
Plant capacity is 2 500 units per year	

The marketing manager proposes that an increase in price would enable *Ganstoni Enterprises* to achieve its target profit of \$150 000 per annum. He believes that sales would not fall significantly if the price is increased, and that this would help to improve the liquidity of *Ganstoni Enterprises*.

- (a) (i) Construct a break-even chart from the data given in Table 2. [6 marks]
- (ii) Identify the break-even output. [1 mark]
- (iii) Calculate the margin of safety if 2000 units are sold. [1 mark]
- (b) Calculate the price that would have to be charged to achieve a target profit of \$150 000 at current levels of output. [2 marks]
- (c) What further information would you require to assess the marketing manager's proposal? Explain how this information would help you. [6 marks]
- (d) Calculate and comment on the values of the current ratio and the acid test ratio. [4 marks]

### 5. Double Deckers Private Limited

*Double Deckers Private Limited* was set up by three bus drivers who have taken over a rural bus service from the local government. The bus drivers were advised by a business consultant to form a private limited company rather than a partnership, and to monitor carefully the cash flow of the business since most small businesses experience cash flow difficulties in their first year. The drivers are hoping to be able to purchase a new bus later in the year using internal funds. Relevant data for the cash flow is provided as follows:

- on 31 December 2005 *Double Deckers Private Limited* had a cash balance of \$500
- rent for the premises amounts to \$2000 per year, and is payable in equal instalments in January, April, July and October
- a quarterly electricity bill of \$150 is to be paid in February, May, August and November
- *Double Deckers Private Limited* intend to employ part time labour in June, July and August at a cost of \$500 for each of those months
- the bus drivers withdraw a total of \$700 per month for expenses
- fuel costs are expected to be \$200 per month
- *Double Deckers Private Limited* forecast that income for the first six months of 2006 will be as follows:

January	1200
February	1200
March	1200
April	1200
May	1200
June	2200

- (a) Explain the reasons for *Double Deckers Private Limited* forming a private limited company rather than a partnership. [6 marks]
- (b) Construct a cash flow forecast for *Double Deckers Private Limited* for January to June 2006. [5 marks]
- (c) *Double Deckers Private Limited* now operates in the private sector of the economy. Analyse the major differences between organizations in the public and private sectors of the economy. [5 marks]
- (d) Explain **two** advantages and **two** disadvantages of using internal funds to purchase a new bus. [4 marks]
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