



88075014

**BUSINESS AND MANAGEMENT  
STANDARD LEVEL  
PAPER 2**

Tuesday 20 November 2007 (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. Creative Technology

Founded in Singapore in 1981, *Creative Technology* is the worldwide leader in digital entertainment products for various market segments in the personal computer industry. *Creative Technology* is particularly involved in the personal digital entertainment market, which is one of these market segments. In recent years *Creative Technology* has expanded in this market by offering a product range, which includes portable media centers (offering music and video), multimedia speakers and digital and web cameras.

*Creative Technology* is most famous for its Zen and MuVo lines of portable MP3 digital audio players. The Zen stores thousands of music tracks and, although portable, is quite bulky. The MuVo weighs one ounce, can be used as a portable computer hard drive, and stores around 130 music tracks. The target markets for the MuVo include teenagers, commuters and joggers. *Creative Technology's* Zen faces significant competition in this market from companies like *Apple* who produce the iPod. The iPod is the market leader in MP3 players and is perceived by consumers as being cool and trendy. Compared to the iPod, the Zen has received favourable reports from independent industry journals. They have reported that the Zen is better than the iPod for sound quality and battery life.

- (a) (i) Describe what is meant by a *target market*. [2 marks]
- (ii) Explain **two** primary market research methods that *Creative Technology* could use to help them identify additional target markets for the MuVo. [4 marks]
- (b) Explain how market segmentation could help *Creative Technology* achieve a greater market share in the personal digital entertainment market. [6 marks]
- (c) Discuss the importance of product branding in determining the success of the Zen. [8 marks]

## 2. Hopwoods

Tony Hopwood started his business in 1990. The business grew steadily from a team of 20 to over 5000 employees. Tony is proud of his close and informal relationships with his management team, whom he treats like a family. His door is always open. However, over the last few years he has spent an increasing amount of time out of the office. Tony appointed his daughter Leila, a recent graduate, to manage the business in preparation for his retirement.

Leila felt that the relatively informal structure was no longer appropriate. She therefore split the business up into a number of new departments with new staff appointed from outside to be in charge of the day-to-day running of the departments. Leila rarely discusses issues with staff, preferring to make decisions herself and communicating them through e-mails.

The original staff resent this formal communication, the new structure, and the new department heads whom they believe know little about the business and its traditions. They are angry at being overlooked for promotion and feel excluded from decision-making. The staff continue to use informal communication rather than official department channels. Their loyalty to Tony Hopwood and the relatively high wages prevent them from leaving.

- (a) (i) Describe **two** factors that influence the style of leadership adopted by a manager. *[4 marks]*
- (ii) Explain the difference between Tony's and Leila's leadership styles. *[4 marks]*
- (b) Explain why using e-mail as the only source of communication could lead to communication problems. *[4 marks]*
- (c) Using relevant motivational theory, discuss **two** practical measures Leila could implement to reduce staff dissatisfaction. *[8 marks]*

### 3. Clean Living

*Clean Living* was founded in the United Kingdom by Sue Campbell in 1974 and rapidly evolved from one small shop to a worldwide network of shops. Sue wanted her business to be recognized as the most socially responsible business on the planet. Franchising allowed for rapid growth and international expansion as hundreds of entrepreneurs worldwide bought into Sue’s vision. Sue also ensured that she constantly reviewed and modified the product range and the campaigns that they supported, so that it catered to consumer tastes.

The company’s campaigns against human rights abuses, its commitment to animal and environmental protection and its determination to challenge the stereotypes of beauty perpetuated by the cosmetics industry, won the support of generations of consumers. The company continues to lead the way for businesses to use their voice for social and environmental change.

- (a) (i) Describe what is meant by a *franchise*. [2 marks]
- (ii) Explain **one** advantage and **one** disadvantage of expanding through franchising. [4 marks]
- (b) Using appropriate examples from the case study distinguish between *objectives*, *strategies* and *tactics*. [6 marks]
- (c) Analyse the advantages **and** disadvantages for *Clean Living* of setting ethical objectives. [8 marks]

**4. Rodda plc**

*Rodda plc* requires funds for a new investment project. The company is considering various sources of finance, but the board of directors believe that the funds need to be external because they are concerned that issuing more shares would make them vulnerable to a takeover. The financial director has advised the board that the company is already highly geared and that it is likely that interest rates will rise considerably over the next two years as the government intends to slow down the rapid growth in house prices and address an overvalued stock market. He has advised the board that the company has several valuable properties that could be sold to fund the project.

The financial details for the project, which costs \$4 000 000, are shown below.

	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>
Net cash flow (\$)	500 000	500 000	2 400 000	2 000 000	2 000 000

The expected monthly receipts and payments (in \$) for the first four months of Year 1 are shown below. The opening cash balance in January is expected to be 3 500 000.

	<b>January</b>	<b>February</b>	<b>March</b>	<b>April</b>
Cash sales	3 000 000	3 200 000	3 450 000	3 550 000
Stock	4 000 000	1 000 000	1 000 000	1 000 000
Wages	1 000 000	1 000 000	1 000 000	1 000 000
Electricity	200 000	200 000	200 000	200 000
Rent	100 000	100 000	100 000	100 000
Other expenses	150 000	150 000	150 000	150 000
Purchase of new investment project			4 000 000	

- (a) Construct a cash flow forecast for the period January to April. *[6 marks]*
  
- (b) Calculate the payback period for the project. *[2 marks]*
  
- (c) Explain how *Rodda plc* can be profitable but still experience cash flow difficulties. *[4 marks]*
  
- (d) Discuss whether *Rodda plc* should take out a bank loan to fund the new project. *[8 marks]*

5. **Stir Fry**

*Stir Fry* operates a small stall in a popular market, selling chicken and rice to a variety of regular and loyal customers. It is renowned for the quality of its meals, and some customers are prepared to travel long distances to enjoy the food.

Mr Tong, the owner, would like to expand the business. He is considering two options; market development and new product development. He wants to sell more of his chicken and rice, but he thinks this would mean either cutting price, or opening new outlets in other markets since sales growth has been very slow in recent months. Alternatively, he believes he can expand the business by offering new dishes such as pork noodles and beef burgers at the same stall, or by renting another stall in the same market. No other stall offers the new dishes, and Mr Tong thinks they will be popular.

Monthly costs are shown below.

		\$
<b>Fixed costs</b>	Rent	5000
	Van	1000
	Staff	6000
<b>Variable costs</b>	Chicken	1.00
	Rice	0.20
	Paper plates	0.10
	Electricity	0.10
	Other	0.10

Mr Tong currently sells 6000 dishes of chicken and rice per month for \$4.00 per dish.

- (a) With reference to *Stir Fry*, explain the difference between *fixed costs* and *variable costs*. [4 marks]
  
- (b) Construct a break-even chart for *Stir Fry* and show the break-even level of output per month. [6 marks]
  
- (c) Calculate the margin of safety if 6000 dishes of chicken and rice are sold per month. (*Show your working*) [2 marks]
  
- (d) Based on the information provided, recommend which strategy Mr Tong should adopt to expand the business. [8 marks]