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**BUSINESS AND MANAGEMENT  
STANDARD LEVEL  
PAPER 2**

Friday 7 November 2008 (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. Temasek Holdings

Established in 1974, *Temasek Holdings* is an investment company with headquarters in Singapore. Its mission statement is:

*“To create and maximize long-term shareholder value as an active investor and shareholder of successful enterprises.”*

To support this mission statement, *Temasek Holdings*:

- creates and maximizes value for shareholders
- manages a global portfolio of shares mostly in Singapore and South East Asia
- buys and sells shares on a daily basis.

*Temasek Holdings* invests in many industries it considers to be attractive, including telecommunications and media, financial services, property, transportation, energy and resources, infrastructure, engineering and technology, as well as pharmaceuticals and biosciences. It invests in companies with high regional or global potential and builds them into successful enterprises that seek to grow beyond their existing markets.

As part of its stakeholder relations programme, *Temasek Holdings* gives financial support to communities in South East Asia in times of need. For example, in May 2006, *Temasek Holdings* worked with Indonesian Banks to support a Singapore hospital to deliver medical care to Indonesians affected by an earthquake.

[Source: adapted from [www.temasekholdings.com.sg](http://www.temasekholdings.com.sg)]

- (a) Define the term *mission statement*. [2 marks]
- (b) Explain **two** human resource benefits for *Temasek Holdings* of ethical and socially responsible conduct. [4 marks]
- (c) With reference to *Temasek Holdings*, explain how objectives, strategies **and** tactics interrelate. [6 marks]
- (d) Discuss how *Temasek Holdings* could maximize shareholder value through the management of its portfolio. Your answer should consider how *Temasek Holdings* identifies attractive industries and successful enterprises. [8 marks]

## 2. Burger Bar

*Burger Bar* is submitting a business proposal to its bank manager to obtain a bank loan in order to set up a new fast food business. The owners know that they must break even within the first year or the bank will not approve the application for a loan.

The details of their proposal are summarized below:

- the variable unit cost for making one burger is \$1.00
- the fixed cost of making burgers for 12 months will be a total of \$100 000
- the partners have forecast sales of 150 000 burgers in the first 12 months
- the price the partners are projecting for the burger is \$2.00.

The owners have already carried out extensive primary and secondary market research to support their business proposal.

- (a) Identify **two** types of primary market research. *[2 marks]*
- (b) Explain the role of market research when setting up a new fast food business. *[4 marks]*
- (c) Construct a break-even chart based on the above information. Your chart should show:
- the break-even output
  - the margin of safety if 150 000 burgers are sold. *[6 marks]*
- (d) To what extent can this break-even analysis **alone** be used to support the application for a bank loan? *[8 marks]*

### 3. Dr Martens

*Dr Martens* is a footwear brand established in Germany in 1947. Known as “Doc Martens”, “Docs”, or “DMs”, the brand is distinct for being comfortable and durable with an air-cushioned sole developed by Dr Klaus Maertens of Germany.

*Dr Martens* boots have appealed to diverse market segments. Originally a big hit with housewives (80% of sales were to women over the age of 40), they were then also bought by authors and a range of youth subcultures\*.

*Dr Martens* sales grew steadily and by 1959, the company had grown large enough to market the footwear internationally. A British shoe manufacturer bought patent rights to manufacture the shoes in the UK and added its distinctive yellow stitching. The first *Dr Martens* in the UK were sold in 1960 and were popular among postmen, policemen and factory workers.

By the late 1960s, sales were increasing rapidly. Street gangs made the cherry-red boots a distinctive style. By the mid 1970s, *Dr Martens* boots were popular among some British rock stars and their fans. The boots and shoes then became popular among some other youth subcultures. At this point, *Dr Martens* had a huge share of the teenage footwear market. However, in the 1980s and 1990s *Dr Martens* faced intense competition as consumers started to wear sports footwear brands such as *Adidas* and *Nike*. Sales for *Dr Martens* went into a rapid decline, which has continued.

*Dr Martens* are now sold in many different styles, including conventional black shoes, sandals and steel-toed boots. Nevertheless, many of their target markets have turned to competing manufacturers’ boots.

[Source: adapted from <http://www.businesspme.com/uk/articles/advertising/108/Dr--Martens.html>, 26 March 2007]

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\* subculture: a group of people with a culture different from the larger culture to which they belong.

- (a) Define the term *market segment*. [2 marks]
- (b) Construct a fully labelled product life cycle diagram for *Dr Martens* from 1947 to the present day. [4 marks]
- (c) With reference to *Dr Martens*, comment on the value of market segmentation. [6 marks]
- (d) With reference to the product life cycle, evaluate **two** alternative extension strategies that *Dr Martens* could introduce. [8 marks]

#### 4. Globalization and Tata Group

*Tata Group*, an Indian multinational, operates in 54 countries on 6 continents. It spent \$1500 million on foreign acquisitions last year and now generates 30 per cent of its revenue outside India. International sales of goods and services are forecast to double every two years.

As new multinationals like *Tata Group* emerge from the developing world, their leaders think and act in very different ways. For example, *Tata Group* focusses on designing products for low-income consumers whom traditional multinationals have tended to overlook. The group’s holding company, *Tata Sons*, is owned by charities, with two-thirds of its profit going to charitable organizations.

*Tata Group*’s automotive business is developing an affordable “people’s car” that it will sell in kits. These will be assembled by the car dealer to save costs. *Tata Group*’s low-cost focus has proved successful in the truck market. It acquired the truck operations of *Daewoo* of South Korea and within the first three years of its operations it captured one-fifth of the South African truck market.

*Tata Group* has a reputation as an organization that wants to learn rather than teach and that wants to help build a nation, as it did in India, rather than merely seize market share. This is particularly important when entering emerging markets. For example, in Bangladesh, the group has proposed a \$2500 million investment in the country to build a steel plant, a coal mine and a power plant. This investment includes plans to build two new hospitals and two new schools to improve the local infrastructure.

[Source: adapted from Out of India, A “Third Wave of Globalization” Emerges,  
Anand Giridharadas and Saritha Rai, *The International Herald Tribune* and *The New York Times*, 19 October 2006]

- (a) Define the term *globalization*. [2 marks]
- (b) Explain **two** consequences of globalization for *Tata Group*. [4 marks]
- (c) Comment on **two** consequences for the Bangladesh economy as a result of *Tata Group*’s “\$2500 million investment in the country”. [6 marks]
- (d) Evaluate **two** strategies available to *Tata Group* to enter international markets. [8 marks]

**5. Rizzo Fashions**

Antonio Rizzo sells fashionable clothes in various retail outlets that focus on teenage fashions. *Rizzo Fashions'* product range includes eight brands that cater to various teenage market segments. Aware of the importance of product branding, Antonio is planning to launch a new product range called "Speranza".

Antonio has produced forecasted sales revenue and costs for January to June 2009 if the "Speranza" range is launched. He expects to receive a monthly revenue of \$100 000. 60% of this will be paid in cash with the remaining 40% received one month later. He also expects sales to grow by 10% per month.

Electricity bill	\$10 000 per month
Telephone bill	\$45 000 annual charge to be paid in equal instalments in February and April
Advertising	\$15 000 per month
Office rent	\$30 000 to be paid in March
Finance charge	\$5000 per month
Opening cash balance for January 2009	\$50 000

Antonio is concerned that debtors have been slower in making their payments and this has increased *Rizzo Fashions'* working capital requirements. He also recognizes the need to raise additional long-term funds if he is to launch this product range. Therefore, he is considering taking out a bank loan, which would be secured against the family home. Alternatively he could issue new shares. At the moment, all shares are owned by family members.

- (a) Define the term *product branding*. [2 marks]
- (b) Explain why *Rizzo Fashions* needs working capital. [4 marks]
- (c) Use the data above to construct a cash flow forecast from January to June 2009. [6 marks]
- (d) Discuss the advantages **and** disadvantages of the alternative forms of financing the new product range that Antonio is considering. [8 marks]