



**BUSINESS AND MANAGEMENT
STANDARD LEVEL
PAPER 2**

Monday 16 November 2009 (morning)

1 hour 45 minutes

INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- Section A: answer one question.
- Section B: answer two questions.

SECTION A

Answer **one** question from this section.

1. Mitsubishi Motors

During the 1970s and 1980s, the multinational car manufacturer *Mitsubishi Motors* built much of its customer base in South-East Asia. When in the late 1990s the South-East Asian economy had a major downturn, *Mitsubishi Motors*’ sales fell. Other Japanese car manufacturers, like *Toyota* and *Honda*, offset their falling Asian sales by increased sales in the United States, but *Mitsubishi Motors* had only a small market share in the United States. Thus, the turmoil in the South-East Asian economy had a greater effect on *Mitsubishi Motors* than on other car manufacturers and multinational companies. The company’s losses in 1997 were the worst in its history.

In 2005, *Mitsubishi Motors* announced a vision statement, “We are committed to providing the upmost driving pleasure and safety for our valued customers and our community. On these commitments, we will never compromise”.

In 2006, after years of limited investment and frequent losses, the company introduced the award-winning *Mitsubishi Motors* Kei car, its first new model in 29 months. The sports utility vehicle (SUV) Outlander model was revised and launched worldwide.

Selected items from *Mitsubishi Motors*’ profit and loss account and balance sheet:

	Year ended 31 May 2004 (millions of Yen)	Year ended 31 May 2007 (millions of Yen)
Cost of goods sold	2160	1789
Current assets	869	1061
Current liabilities	1567	1111
Expenses	574	405
Fixed assets	1160	719
Loan capital	432	360
Non-operating income	0	0
Retained profit (from balance sheet)	17	156
Sales revenue	2519	2203
Share capital	13	153

[Source: adapted from *Times of Oman*, 14 November 2007]

(This question continues on the following page)

(Question 1 continued)

- (a) Define the following terms:
- (i) *market share* [2 marks]
 - (ii) *multinational company*. [2 marks]
- (b) Explain the value to *Mitsubishi Motors* of a vision statement. [4 marks]
- (c) Calculate for 2004 **and** 2007 *Mitsubishi Motors*’:
- (i) gearing ratio [2 marks]
 - (ii) gross profit margin [2 marks]
 - (iii) net profit margin. [2 marks]
- (d) Using ratio analysis and other relevant financial information, analyse the changes in the financial situation of *Mitsubishi Motors* between 2004 and 2007. [6 marks]

2. Niekerk Manufacturing

Niekerk Manufacturing, a private limited company located on the outskirts of Montevideo, Uruguay, manufactures small aluminium pipes for companies in a range of industries. The pipes are designed following customers’ specifications. The good reputation of *Niekerk Manufacturing* has led to increased sales in the last several years and the firm is now operating at 100% capacity. Jan Niekerk, the owner of the company, even has to decline orders when too many come in at once. He fears that this is giving his competitors opportunities to increase their sales and is considering expanding his factory.

In 2005, the sales revenue was \$4 500 000.

	Current factory (\$)	Expanded factory (\$)
Fixed cost per year	350 000	570 000
Variable cost per pipe	4.5	4.25
Sales price per pipe	5	5

To fund the proposed expansion and increase economies of scale, *Niekerk Manufacturing* will need to raise a significant amount of finance. The capacity of the expanded factory with any additional equipment will be 1 600 000 pipes per year. Jan Niekerk does not anticipate operating at full capacity in the expanded facility for some time, but he believes it is better to expand now rather than build a small second factory then a third in a few years.

- (a) Define the following terms:
 - (i) *private limited company* [2 marks]
 - (ii) *economies of scale.* [2 marks]

- (b) Construct a fully labelled break-even chart for *Niekerk Manufacturing* at the current capacity prior to the expansion. [6 marks]

- (c) Assuming *Niekerk Manufacturing* sells 1 200 000 pipes in the first year in the expanded factory, calculate:
 - (i) the net profit [2 marks]
 - (ii) the margin of safety. [2 marks]

- (d) Analyse **two** appropriate sources of finance to fund the expansion of the factory and any additional equipment. [6 marks]

SECTION B

Answer **two** questions from this section.

3. Road Trip Wizard

LeisureLogix is an independent technology company. It recently introduced an online travel software product called “Road Trip Wizard” that prepares a personalized itinerary (travel plan) for those travelling by car based on their interests and trip preferences, such as romantic trips, business journeys or family holidays. The itinerary includes maps, driving directions, tourist attractions and hotels. Discounts are offered if booked using Road Trip Wizard.

Road Trip Wizard software was developed because market research indicated that:

- 88 % of leisure travel in the United States (US) is done on the road
- the online marketplace is mainly focused on air travel
- online booking for tourism products is becoming less popular: last year, 9 % fewer Americans booked travel online compared to the previous years because they are tired of spending two or three hours trying to find the airline, hotel or vacation package that meets their needs
- travellers who drive are a less profitable market segment than those who fly
- 85 % of road travellers in the US book mid-range or expensive hotels.

Road Trip Wizard will be promoted to US consumers to capture new market segments and to fill a major gap in the online travel business market, which is experiencing growing revenue but with fewer customers.

[Source: adapted from *The New York Times*, 29 October 2007 and <http://www.eyetravel.com/>, 26 October 2007]

- (a) Define the term *market segment*. [2 marks]
- (b) (i) Explain how the online travel business can have “growing revenue but with fewer customers”. [2 marks]
- (ii) Explain **two** primary market research techniques that could have been used by *LeisureLogix* to obtain its market research results. [4 marks]
- (c) With reference to Road Trip Wizard, analyse the usefulness of market segmentation. [5 marks]
- (d) Discuss promotional strategies that *LeisureLogix* could implement to increase the use of Road Trip Wizard by American (US) consumers. [7 marks]

4. **Mattel and Chinese manufacturing**

More than two-thirds of the 800 million toys produced every year by *Mattel* are made in China, which specializes in low-cost manufacturing. Many Western companies like *Mattel* do business in China to keep costs down. In 2007, however, *Mattel* had to recall many toys made in China because they were faulty and dangerous. A survey found that almost 40% of British consumers are now less likely to buy Chinese-made toys because of these product recalls.

Although *Mattel* expects the Chinese manufacturers to comply with its safety and quality assurance standards, the Chinese government plays only a limited role in supervising factories. As a result, *Mattel* itself must be responsible for checking safety and quality standards in factories it does not own.

Some Western firms doing business in China believe they have a social responsibility to ensure they sell toys which meet safety and quality standards. However, many Western managers working in China say top management in Europe or America often do not want to hear about the problems but just want to source cheap products.

Many business analysts believe that the Chinese focus on high-volume, low-cost manufacturing worked well in the initial phase of the country's economic expansion. They argue that Chinese firms should now focus on quality, otherwise China's economic growth will suffer. This trend has begun with the emergence of Chinese companies, competing at higher levels of technology and taking advantage of economies of scale. These companies may have branches and factories overseas.

[Source: adapted from "Plenty of blame to go around", *The Economist*, 27 September 2007]

- (a) Define the term *quality assurance*. [2 marks]
- (b) Distinguish between **two** different views that firms, such as *Mattel*, may take of their social responsibility in an international context. [6 marks]
- (c) Examine **one** opportunity and **one** threat for *Mattel* in doing business in China. [5 marks]
- (d) Discuss **two** possible areas of conflict between *Mattel's* stakeholders that may arise from doing business in China. [7 marks]

5. Casas Carreras

Paolo Carreras, founder of *Casas Carreras* in 1950, had a vision to become the largest retailer in Brazil. He ran his business in a very autocratic fashion. *Casas Carreras* always had a tall organizational structure. Managers were always expected to consult Paolo on major decisions. Consequently, decision-making was slow and salespeople complained that their ideas were rarely communicated to senior management.

By 2001, *Casas Carreras* had become the largest retail chain store in Brazil. As many of the items *Casas Carreras* sells are large household items (such as stoves, refrigerators and washing machines) a key driver of this growth was credit cards being made available to most Brazilians. However, sales growth at *Casas Carreras* has slowed in recent years.

Paolo died in 2006 and ownership of the business was passed to his daughter Suzanna. Suzanna believes that the business is too bureaucratic: she is planning to make it more flexible and more responsive to market needs. She believes the managers do not have sufficient incentives and is proposing to offer them greater freedom by creating a flatter organizational structure. They will have greater independence as long as they meet revenue and profit targets. Suzanna proposes that a store manager would have the right to cut prices by as much as 10%, and a regional manager by up to 25%, without consulting executive management.

At present, salespeople are paid a monthly salary of \$350. Suzanna wants to reduce the monthly salary to \$200 (the minimum wage as required by law) but salespeople will be able to improve their income by earning 5% commission on sales. As a result, the average salesperson could earn \$500 per month.

- (a) Define the term *commission*. [2 marks]

 - (b) (i) Explain how the greater availability of credit cards enabled *Casas Carreras* to increase its sales. [2 marks]

(ii) Comment on **two** causes of the communication problems that resulted from Paolo's autocratic leadership style. [4 marks]

 - (c) Analyse **one** advantage and **one** disadvantage of changing the organization of *Casas Carreras* from a tall to a flatter structure. [5 marks]

 - (d) Evaluate the impact of the proposed payment scheme for salespeople on their job satisfaction, motivation and productivity. [7 marks]
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