



22105014



**BUSINESS AND MANAGEMENT
STANDARD LEVEL
PAPER 2**

Wednesday 5 May 2010 (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. Natura Cosméticos

Natura Cosméticos is a Brazilian company that manufactures and sells a range of cosmetic products including shampoo, soap, make-up and creams that protect against the sun. *Natura Cosméticos* has ethical objectives and has built its success on the high quality of its products and on the company’s commitment to sustainable development¹. *Natura Cosméticos*’ mission statement states that it is:

“committed to building a better world through sustainable development”.

Natura Cosméticos uses natural ingredients from the Amazon rainforest. The company supports local villagers in planting their crops using traditional sustainable techniques.

Excerpt from the profit and loss accounts for *Natura Cosméticos* for the years ended 31 May 2006 and 2007

| | 2006 | 2007 |
|------------------------------------|-------------|-------------|
| Sales revenue | 2800 | 3123 |
| Cost of goods sold | 891 | X |
| Gross profit | X | 2131 |
| Expenses | X | 1453 |
| Net profit before interest and tax | 644 | X |
| Interest | 34 | 90 |
| Tax | 149 | 156 |

Natura Cosméticos sells its products in recyclable packaging through a direct sales distribution network of more than 60 000 self-employed² “partners” in Brazil. These “partners” are mostly women working part-time on profit-related pay. This approach works well because employment opportunities in Brazil are limited, wages are low, and it allows flexible working. Consumers also like direct distribution because of the personal service and close interaction with the “partners”.

Natura Cosméticos has experienced an average annual growth in revenue of 25% between 1995 and 2003. In 2006, the company built a new manufacturing plant to accommodate future growth. This was financed by a new long-term loan.

¹ sustainable development: a pattern of resource use that aims to meet human needs while preserving the environment so that these needs can not only be met in the present, but also for future generations

² self-employed: earning one’s livelihood directly from one’s own trade or business rather than as an employee of another

[Source: adapted from *Globality: Competing With Everyone From Everywhere For Everything* New York and Boston: *Business Plus*, 2008, and *The 2007 Natura Annual Report*]

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(Question 1 continued)

- (a) Outline the purpose of the mission statement of *Natura Cosméticos*. [4 marks]
- (b) From the profit and loss accounts provided:
- (i) calculate the missing values X for 2006 **and** 2007. [2 marks]
- (ii) calculate the gross profit margin **and** the net profit margin for 2006 **and** 2007. [4 marks]
- (iii) comment on the change in interest between 2006 and 2007. [2 marks]
- (c) Distinguish between the purpose of accounts for **one** internal stakeholder group of *Natura Cosméticos* and the purpose of accounts for **one** external stakeholder group. [3 marks]
- (d) Examine **two** reasons why organizations such as *Natura Cosméticos* set ethical objectives. [5 marks]

2. Aravind Eye Care

Aravind Eye Care is the world’s largest provider of eye surgery. Founded in 1976 in India by Dr Govindappa Venkataswamy, the non-profit organization can perform 250 000 operations per year. At *Aravind Eye Care*, only 40% of the patients pay for the operation, which costs them US\$60. The other 60% of the patients, who would otherwise not be able to afford the operation, do not pay.

Aravind Eye Care has transformed the process of eye surgery in developing economies. Expensive medical equipment has been purchased but is used 24 hours a day in order to lower the average cost for each operation. In *Aravind Eye Care* hospitals, surgeons perform only the eye operation itself whereas in other hospitals, doctors also provide care before and after the operation. At the *Aravind Eye Care* hospitals, each doctor can perform 4000 eye operations per year, whereas other eye surgeons in India average 400.

With these economies of scale, in 2007 *Aravind Eye Care* performed 100 000 operations for fee-paying patients. For these patients:

- the price charged per operation was US\$60
- the variable cost per operation was US\$20
- fixed costs including overheads were US\$3 000 000.

In recognition of their extraordinary efforts to improve health in developing countries, *Aravind Eye Care* received the *Bill & Melinda Gates Foundation* award in 2007.

[Source: adapted from *Globality: Competing With Everyone From Everywhere For Everything*, New York and Boston: *Business Plus*, 2008, and http://papers.ssrn.com/sol3/papers.cfm?abstract_id=991824, 17 June 2008]

- (a) Define the following terms:
- (i) *non-profit organization* [2 marks]
- (ii) *overheads*. [2 marks]
- (b) Calculate for fee-paying patients in 2007 at *Aravind Eye Care* (Show all your working):
- (i) the contribution to fixed costs of each fee-paying patient [2 marks]
- (ii) the break-even quantity [2 marks]
- (iii) the margin of safety. [2 marks]
- (c) Prepare a fully labelled break-even chart for *Aravind Eye Care* in 2007. [5 marks]
- (d) With reference to appropriate content theory, examine **two** factors that could influence the motivation of doctors at *Aravind Eye Care*. [5 marks]

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SECTION B

Answer *two* questions from this section.

3. Ecosoluciones

Ecosoluciones is a non-profit research organization located in Madrid, Spain. One of their objectives is to try to introduce non-polluting sources of electricity in developing countries. One successful application of their research was the Alumbre Project. This provided electricity created by wind generators to the remote village of Alumbre, Peru, which previously had none.



[Source: <http://www.publicdomainpictures.net/view-image.php?picture=wind-turbines&image=452>, 17 December 2009]

In Alumbre, wind generators were installed by *Ecosoluciones* to supply, for the first time, electricity to a textile factory, one of the few firms in the area operating in the secondary sector. *Ecosoluciones* also agreed to maintain and repair the generators. There was a complete transformation in the production process. The factory was able to buy new machinery. Productivity increased dramatically. New jobs were created.

Ecosoluciones also promised, in partnership with *Peru Telecom* and the Peruvian government, to help fund the improvements in communication between Alumbre and the rest of Peru. This also allowed regional trade to develop. The entire community experienced significant improvements in their quality of life. The Peruvian government saw this as a practical solution to develop other depressed areas* of the country.

Unfortunately in 2008 a severe financial crisis hit Europe and the Spanish government suspended part of its funding for research organizations such as *Ecosoluciones*. As a direct result, the management of *Ecosoluciones* felt it may no longer be able to maintain Alumbre's wind generators.

* depressed area: a region or locality where business, employment, and stock-market values have declined severely or are at a very low level of activity

[Source: adapted from <http://ecoworldly.com/2008/06/17/wind-power-blows-into-peru-and-brightens-future/>, 17 June 2008]

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(Question 3 continued)

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

- (b) Prepare a PEST analysis for the textile factory in Alumbre. *[6 marks]*

- (c) Contrast the objectives of non-profit organizations such as *Ecosoluciones* to those of profit-based organizations. *[5 marks]*

- (d) Discuss **two** possible areas of conflict between stakeholders in the Alumbre Project. *[7 marks]*

4. Coca-Cola in Tajikistan

Coca-Cola uses two types of distribution channels globally:

- a short channel of delivering small orders to thousands of retail outlets directly
- a long channel through intermediaries such as distribution centres.

In 2009, Elena Rudaki started up her *Coca-Cola* distribution centre in a town in Tajikistan where the mountainous roads are in very poor condition. As a sole trader and franchisee she employs five people, who use carts pulled by horses to distribute bottles of *Coca-Cola* to nearby villages. Before she opened her distribution centre, *Coca-Cola* checked that she had access to appropriate sources of finance as well as a business plan. As part of the franchise contract, Elena and the other distribution centre owners do not pay a fee to *Coca-Cola*. However, in return *Coca-Cola* must be the only drink they buy and sell. Elena knows it is very restrictive.

Coca-Cola believes that distribution centres are successful because they are owned and operated by local entrepreneurs who understand the local culture. For *Coca-Cola*, the distribution centre model has led to increased consumption of their products as well as improving local economies by encouraging business start-ups and creating jobs. Many distribution centre owners are women, like Elena, who used her profits to buy a new house and pay for her daughter's education.

Before entering the Tajikistan market, *Coca-Cola* had considered using a short distribution channel, from a central storage facility (depot) in the capital city, Dushanbe, direct to the retailers. However, they decided to implement a system of distribution centres for their distribution.

[Source: adapted from *afrol News*, 26 September 2008 and <http://www.beverageworld.com/content/view/34798/92/company>, 17 June 2009]

- (a) Identify **two** features of a sole trader. [2 marks]
- (b) Comment on **two** appropriate sources of finance which Elena Rudaki might have used to set up her distribution centre. [6 marks]
- (c) Examine **two** problems that other entrepreneurs in Elena Rudaki's town may face if they start up a new business. [5 marks]
- (d) Discuss the effectiveness of the different types of distribution channels for *Coca-Cola* in Tajikistan. [7 marks]

5. Bajaj

In India, the market leader in motorbike manufacturing is *Bajaj*, with a 34% market share. There are many market segments for motorbikes. For some target markets, price is the most important factor. Other target markets are willing to pay more for extra features, such as better styling*. *Bajaj* is market orientated and offers 12 different models to satisfy the needs of various consumer profiles.

Bajaj has an extensive distribution network even in remote areas. Twice a year, *Bajaj* carries out primary market research through surveys, focus groups and interviews with their customers about the quality, reliability and safety of the *Bajaj* motorbikes. This is particularly important in remote areas where there are few garages to either service or repair them.

In the last 10 years the company has also gained a significant share of other markets, including the Philippines, Colombia and Tajikistan. This was done through strategic alliances. One of the company's long-term objectives is this continued expansion in international markets.

For its international markets as in India, *Bajaj* is determined to make sure that each model of motorbike satisfies local needs and preferences. One proposal is to use franchising to enter international markets.

* styling: the various features of style or design that consumers may prefer

[Source: adapted from *Globality: Competing With Everyone From Everywhere For Everything*
New York and Boston: Business Plus, 2008]

- (a) Outline briefly the difference between market orientation and product orientation. [2 marks]
 - (b) Comment on the appropriateness of “surveys, focus groups and interviews” as methods of primary market research for *Bajaj*. [6 marks]
 - (c) Analyse the usefulness of market segmentation and consumer profiles for *Bajaj*. [5 marks]
 - (d) Evaluate the use of franchising as a growth strategy for *Bajaj*. [7 marks]
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