



22125014



**BUSINESS AND MANAGEMENT
STANDARD LEVEL
PAPER 2**

Monday 21 May 2012 (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.
- A calculator is required for this examination paper.
- A clean copy of the ***Business and Management formulae sheet*** is required for this examination paper.
- The maximum mark for this examination paper is [60 marks].

SECTION A

Answer *one* question from this section.

1. Asado Heaven (AH)

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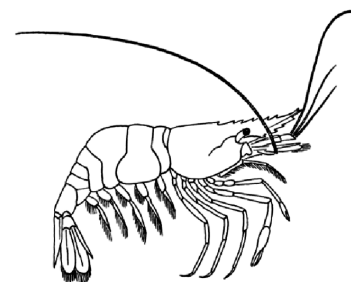
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(Question 1 continued)

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2. Bangkok Shrimp (BS)

In 2011, an environmental catastrophe contaminated the waters off the coast of South America, one of the main fishing areas of the world. As a result of the catastrophe (and the resulting lower supply of shrimp), the price of shrimp worldwide increased by 30%. Aroon Bhuvanadh, owner of *Bangkok Shrimp (BS)* located in Thailand, saw this as an excellent opportunity to expand his business. He decided to increase the number of his shrimp boats from two to three in order to benefit from the higher prices and profits.



[image: http://commons.wikimedia.org/wiki/File:Prawn_%28PSF%29.png; Pearson Scott Foresman]

The price of the new shrimp boat is \$175 000. If the selling price of shrimp remains at the current high levels, anticipated profits per boat after all expenses would be \$35 000 per year. If prices fall to pre-2011 levels, the profit would decrease to \$10 000. Aroon's bank will provide finance for the new boat. If the new boat is properly maintained, it will last longer than the proposed seven-year term of the bank loan.

Aroon captains one of the existing boats. He currently employs an experienced captain for the second boat, and he will have to recruit an additional experienced captain for the third boat.

Aroon's wife Kanya is worried that the price of shrimp may return to pre-2011 levels before the bank loan is repaid. For this reason, she wants to change the legal structure of the business from a sole trader to a private limited company.

Aroon has a vision: by taking advantage of the opportunity of the current high shrimp prices, he will own three shrimp boats and, later, can leave one boat to each of his three sons when he and Kanya retire in 2017.

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(Question 2 continued)

- (a) Identify **two** advantages and **two** disadvantages of changing the legal structure of *BS* to a private limited company. *[4 marks]*
- (b) Assuming shrimp prices remain at current high levels, calculate for the new shrimp boat (*show all your working*):
- (i) the payback period (without depreciation). *[2 marks]*
- (ii) the average rate of return (ARR) over a seven-year period. *[2 marks]*
- (c) Assuming shrimp prices return to their pre-2011 levels **two years after** *BS* acquires the new shrimp boat, calculate (*show all your working*):
- (i) the payback period (without depreciation). *[2 marks]*
- (ii) the average rate of return (ARR) over a seven-year period. *[2 marks]*
- (d) Comment on the results of your investment appraisal calculations in parts (b) and (c). *[3 marks]*
- (e) Using Maslow’s hierarchy of needs theory, analyse Aroon’s motivation to acquire the additional shrimp boat. *[5 marks]*

SECTION B

Answer **two** questions from this section.

3. Hands

Hands, a partnership set up in 1968 in southern Argentina, manufactures hand-knitted items such as sweaters, scarves, bags, carpets and blankets produced under job production methods. It employs around 300 craftswomen from the rural areas of Patagonia. Workers are paid on a piece rate basis.

The business has faced several challenges over the years such as a lack of finance and economic recessions. Elizabeth Sosa, managing partner, said that *Hands* survival depended not only on the product, but also on the craftswomen’s loyalty to the business and the partners’ democratic leadership style. She said “our workers have developed a strong sense of belonging to *Hands*. We are a team, everyone’s opinion is heard”.

The partners wanted *Hands* to enter into international markets. They consulted with the craftswomen several times over this idea. Reaching a consensus on the decision took a long time. For *Hands* to compete effectively in international markets, some craftswomen would have to be given managerial authority. Many craftswomen expressed concern over these proposed organizational changes.

Despite fierce competition from hand-knitting companies in India, New Zealand and Uruguay, within two years *Hands* had entered both the American and European markets by using high quality raw material and quality control methods. It now supplies its products to well-known companies and designers such as Marc Jacobs, Donna Karan, and Polo Ralph Lauren. These new customers are outside the regional trading bloc Mercosur, where *Hands* is located, requiring new distribution channels. Consequently, *Hands*’ working capital needs have increased.

[Used with permission.]

- (a) Identify **two** features of quality control. [2 marks]
- (b) Explain **one** advantage and **two** disadvantages to *Hands* of using a piece rate rewards package for its workers. [6 marks]
- (c) Analyse **two** challenges that *Hands* may have faced entering into international markets. [5 marks]
- (d) Evaluate the effectiveness of the democratic leadership style of the partners at *Hands*. [7 marks]

4. Peace Frogs (PF)

Peace Frogs (PF) is an American company selling clothes and accessories that are branded by a frog making the “peace sign”. *PF* specializes in teenage and young-adult clothing.

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The company started operations in 1985 with the sale of multi-coloured shorts designed after various national flags from around the world. Founder Catesby Jones chose the name *Peace Frogs* because the frog is a Native American (American Indian) symbol for peace and, in some cultures, a symbol for good luck. As the shorts reached maturity in the product life cycle, the company shifted to selling other items, always branded with the image of the “Peace Frog”.

PF products include T-shirts, sweatshirts, hats, swimsuits, stickers and other items. In 2007 the company introduced organic cotton T-shirts to its branded product line. The cotton meets rigorous organic certification standards. The T-shirts are made without using chemicals harmful to the environment. The company refuses to purchase clothing from manufacturers that employ children or who do not maintain rigorous safety standards.

PF uses e-commerce and has its own retail stores in eleven American states. Since 1998 the company has had multi-coloured vans that drive to shopping centres, concerts and theme parks around the country. Drivers then sell *PF* branded products, using the van as a retail store.

A concern among environmentalists is the decline in the number of species of frogs worldwide. At present, several species of frogs face extinction. The destruction of their natural habitat is the main threat for them. *PF* makes financial contributions to several organizations committed to environmental protection, which strengthens *PF*'s brand.

[Text: adapted from <http://www.peacefrogs.com/> (please access this URL to view the logo) and http://en.wikipedia.org/wiki/Peace_Frogs – the latter accessed 3 September 2010]

- (a) Identify **two** features of e-commerce. [2 marks]
- (b) Explain **two** ways *PF* practices corporate social responsibility. [6 marks]
- (c) Analyse the benefits of **two** methods of distribution of *PF*'s products. [5 marks]
- (d) Discuss the importance and role of branding for *PF*. [7 marks]

5. Maquinaria de la Oficina de Santiago, Ltda. (MOS)

Maquinaria de la Oficina de Santiago, Ltda. (Office Machinery of Santiago Ltd., *MOS*) is a private limited company run by Maria Salazar, who in 2009 became Chief Executive Officer (CEO) of the company after her father, Martino, retired. When Martino opened the business in 1959, he mainly sold typewriters*. Now *MOS* sells the following for personal and small business use:



[Image: <http://commons.wikimedia.org/wiki/File:Underwoodfive.jpg>]

- modern mobile telephones (for example *Apple* iPhones)
- portable DVD players
- personal computers
- typewriters.

Because of liquidity problems when she became CEO, Maria conducted a detailed analysis of sales and stock (inventory). She discovered the following:

	% of sales, 2009	% of sales, 2011	Sales, 2011 in \$	% of stock, 2011	Average stock, 2011 in \$
Modern mobile telephones	12	15	1 800 000	12	73 000
Portable DVD players	30	34	4 080 000	31	188 000
Personal computers	55	50	6 000 000	50	304 000
Typewriters	3	1	120 000	7	43 000
Total	100	100	12 000 000	100	608 000

Maria concluded that *MOS* should stop selling typewriters, as they are at the end of their product life cycle. Reducing the stock of these items would release funds to help with the liquidity problem.

The gross profit margin for the company on all products is 50%, whereas for typewriters it is 60%.

Maria wants to modernize the image of *MOS*. She would like to change the name of the company to *Electrónica Moderna de Santiago, Ltda.* (Modern Electronics of Santiago Ltd.). Her father, a major shareholder in the company, dislikes the idea. He argues that too many loyal customers still use typewriters and that the company’s name is well-known in the Santiago business community. The legal and other costs of changing the name would use up all the funds released by the reduction in typewriter stock.

* typewriters: machines for writing in letters and characters. Typewriters operate mechanically. Since the 1980s, the typewriter has become largely, though not entirely, obsolete because of the word processing function of computers

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(Question 5 continued)

- (a) Define the term *product life cycle*. [2 marks]
- (b) Calculate:
- (i) the 2011 stock turnover in days at *MOS*. [1 mark]
- (ii) the 2011 stock turnover in days for **typewriters**. [2 marks]
- (c) Explain how the slow turnover of typewriters contributes to the liquidity problem of *MOS*. [3 marks]
- (d) Analyse *MOS*' product portfolio by applying the Boston Consulting Group (BCG) matrix. [5 marks]
- (e) Discuss Maria's plans to stop selling typewriters and to change the name of *MOS*. [7 marks]
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