

Business management
Standard level
Paper 2

Tuesday 22 November 2016 (morning)

1 hour 45 minutes

Instructions to candidates

- Do not open this examination paper until instructed to do so.
- A clean copy of the **business management formulae sheet** is required for this examination paper.
- Section A: answer one question.
- Section B: answer one question.
- Section C: answer one question.
- A calculator is required for this examination paper.
- The maximum mark for this examination paper is **[50 marks]**.

Section A

Answer **one** question from this section.

1. Valley Gardens (VG)

Valley Gardens (VG) is a large garden retailer that sells flowers, plants, trees and other garden supplies. In 2016, in an attempt to gain market share and increase sales, *VG* introduced a loss leader pricing strategy for several varieties of trees. The strategy had an impact on both sales and profitability.

Selected financial information for *VG*, all figures in \$000s:

	2015	2016
Cost of goods sold	2800	V
Expenses	1200	1300
Gross profit	W	1600
Net profit before interest and tax	X	Y
Sales revenue	4300	5100

- (a) Define the term *loss leader pricing strategy*. [2]

- (b) Using information from the table:
 - (i) calculate the missing figures **V**, **W**, **X** and **Y** (*no working required*); [4]
 - (ii) calculate the gross profit margin for 2015 **and** 2016 (*no working required*). [2]

- (c) Using the quantitative information in the table **and** your answers to part (b), comment on the impact of a loss leader pricing strategy on *VG*. [2]

2. Café Lucchini (CL)

Fabi Lucchini will open the only café, selling hot and cold drinks only, in her small village. The economy is weak so the local government will pay 50% of the rent for the premises in which CL will operate.

Fabi has forecasted the following figures for the first six months of operation, beginning on 1 July 2016:

Rent per month	\$2000	
Government payment toward rent per month	\$1000	
Salary per month	\$1600	
Electricity (payable every second month starting in August)	\$200	
Cleaning supplies per month	\$100	
Sales revenue per month	July	\$4000
	August	\$4000
	September	\$3500
	October	\$3500
	November	\$4000
	December	\$4500
Purchases per month	40% of sales	

An option is to install cooking facilities and serve meals to increase CL’s sales revenue. Fabi estimates that she could sell 40 meals per day at an average variable cost of \$5 and at an average sales price of \$10. Serving meals would increase her fixed costs by \$3000 per month.

- (a) Define the term *fixed cost*. [2]
- (b) Calculate the break-even quantity of meals that CL must sell to pay for the increase in fixed costs of \$3000 to provide these meals (*show all your working*). [2]
- (c) Using the information in the table **only**, prepare a monthly cash flow forecast, for CL, for the first six months of operation. [6]

Section B

Answer **one** question from this section.

3. Flussbiegung CityRoller (FC)

Flussbiegung CityRoller (FC) is a private limited company that sells scooters in a large German city. Its shop is situated in an excellent location near the city centre. In 2014, *FC* sold 1200 scooters at a sales price of €2200 per scooter. The business has few variable costs.



FC only sells one brand of scooter, called *Rasen*, which consumers regard as high quality. *Rasen*'s competitors are:

Brand	Price (in €s)	Consumer opinion
Electrico	2800	medium quality
Elegante	2300	low quality
Zoom	1900	low quality

Elegante and *Zoom* have both become popular in the last five years. Despite some problems with quality, both are seen as fashionable scooters. *Elegante* has successfully built a brand identity as a stylish scooter. *Electrico* scooters are electric-powered and are popular with people concerned about pollution. *Rasen*, *Elegante* and *Zoom* scooters all use petrol (gas).

Despite *Rasen*'s reputation for quality, in the last five years *FC*'s market share has decreased. *Rasen*'s manufacturer has also been losing market share across Germany. The problem, according to *FC*, is that the manufacturer does not invest enough to update the brand's image. *Rasen* scooters appeal to an older generation in Germany, but younger people prefer products that are fashionable. *FC* uses below the line promotions. These promotions do not have the same influence on market perception as the manufacturer's above the line promotions, which emphasize *Rasen*'s quality. Another possibility for *Rasen* is, rather than update its brand image, to maintain its current brand identity but try to sell its product in different geographic markets where its current brand identity may have more appeal, such as in eastern Europe or Africa.

- (a) Describe **one** feature of a private limited company. [2]
- (b) Construct a position/perception map for all four brands of scooter. [4]
- (c) Explain the relationship between *Rasen*'s product life cycle and *FC*'s marketing mix. [4]
- (d) Discuss the importance of branding for *FC* **and** for *Rasen*. [10]

4. Adventures for All (A4A)

Tama Toki founded *Adventures for All (A4A)*, which owns four adventure parks employing 342 people. The parks offer adventure activities such as high wire and mountain biking. A4A's target market is teenagers and adults. A4A's mission statement is: "safety and affordability at A4A are the most important reasons for a great time for all".



A4A uses predatory pricing. Its competitors are theme parks and adventure centres. However, social trends are changing. Many teenagers prefer social networking rather than adventure activities. A4A's sales revenue and profits are falling.

Tama discussed with senior managers two possible growth strategies:

- Option 1.** Through extensive promotion, attract children and adults with disabilities and access requirements to the parks. This approach would require specialized training for existing staff. No modifications to the parks would be required.
- Option 2.** Offer corporate team-building activities. A4A would develop specially designed programmes for senior leadership teams to spend three days in newly built conference centres located at the parks. Corporate teams would engage in adventure activities together and then discuss strategic options for their organizations.

Option 2 could be highly profitable. A4A could charge high prices for these programmes. However, some of Tama's senior managers argued that A4A should continue to provide "adventures for all" and not just to a group of highly paid senior leadership teams.

The two options created major disagreements. Two senior managers, working with Tama since the creation of A4A, threatened to resign if Option 2 was implemented. Two other senior managers argued that without Option 2 many jobs at A4A were under threat.

- (a) Define the term *target market*. [2]
- (b) Explain **two** roles of A4A's mission statement. [4]
- (c) Explain **one** advantage and **one** disadvantage for A4A of using a predatory pricing strategy. [4]
- (d) Using the Ansoff matrix, evaluate the **two** possible growth strategies for A4A. [10]

5. Thorns Hill (TH)

Thorns Hill (TH) is a hotel. Its mission statement is “to provide the highest standard of customer service and to be the best employer”. *TH* is divided into three sections, each with a manager:

- sleeping accommodation
- restaurant
- function room for weddings, conferences and other events.

The function room offers entertainment facilities and purchases catering from the hotel restaurant. The function room employees are mostly students working in their spare time. They have flexible contracts that do not guarantee hours of work nor provide benefits such as paid sick leave or holidays.

The use of flexible contracts has reduced the function room’s annual wage cost by 40% over the last five years. The de-layering of supervisory posts (positions) has further reduced the cost of wages. With these cost savings, the profits of the function room have increased significantly. Recently, issues with punctuality, absenteeism and labour turnover have increased.

30% of the restaurant’s sales revenue comes from catering for the function room. The restaurant recently won an award and, in the summer season, is always full of diners. In summer the restaurant has difficulty meeting the catering demands of the function room. Meals ordered often arrive late from the restaurant.

Competition in the market for function rooms is high. The owners are considering a proposal to improve the reputation of the function room by outsourcing all the services of the function room to a private contractor. The private contractor will charge *TH* more than the direct cost of the function room.

- (a) Define the term *de-layering*. [2]
- (b) Using Herzberg motivation theory, explain **one** reason for the recent issues at *TH* with punctuality and absenteeism. [2]
- (c) Explain **two** benefits and **one** negative consequence for *TH* of an increase in labour turnover. [6]
- (d) Discuss the proposal to outsource all function room services to a private contractor. [10]

Section C

Answer **one** question from this section. The organizations featured in sections A and B and in the paper 1 case study may not be used as a basis to your answer.

6. With reference to an organization of your choice, discuss the ways in which **culture** can influence business **strategy**. [20]

 7. With reference to an organization of your choice, examine the impact of **globalization** on business **ethics**. [20]

 8. With reference to an organization of your choice, discuss the ways in which **innovation** can influence organizational **change**. [20]
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