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Business management
Standard level
Paper 1

Thursday 14 November 2019 (afternoon)

1 hour 15 minutes

Instructions to candidates

- Do not open this examination paper until instructed to do so.
- A clean copy of the **business management case study** is required for this examination paper.
- Read the case study carefully.
- A clean copy of the **business management formulae sheet** is required for this examination paper.
- Section A: answer two questions.
- Section B: answer question 4.
- A calculator is required for this examination paper.
- The maximum mark for this examination paper is **[40 marks]**.

Section A

Answer **two** questions from this section.

1. (a) Outline **two** advantages for *Accord* of using job/customized production. [4]
(b) Explain how *Accord* can differentiate Enrich from the products of its competitors. [6]
2. (a) Describe **two** reasons why secondary market research may not be useful to *Accord*. [4]
(b) Explain possible economies of scale that may apply to *ABC* but **not** to *Accord*. [6]
3. (a) With reference to *Accord*, outline **two** possible steps for Aran and Kayla in starting the business. [4]
(b) **Other than** a business angel (line 108), explain methods of external finance that *Accord* could use to increase production capacity (line 108). [6]

Section B

Answer the following question.

4. Aran and Kayla decided to launch Detox using batch production. It has now been on the market for six months. Detox is showing strong growth, although sales for the first six months were less than a quarter of Kayla’s target of 160 000 bottles for the first year. The price of Detox is \$2.50 per bottle. The cost of goods sold is \$160 000 and the operating costs before interest and tax are \$20 000 per year.

Enrich sales have not grown much and Aran is very disappointed. Customers, mainly athletes, do not use the product frequently and it is difficult to find new customers. However, research into customer perceptions indicates a very strong brand, resulting largely from *Accord’s* corporate social responsibility (CSR) and strong customer loyalty.

Aran does not like the way the business is organized by product and wants to change it so that it is organized by function instead.

Following the success of Detox, Kayla wants to produce a range of snack bars based on Enrich flavours and recipes. *Accord* would use the Enrich brand name for the snack bars. The market for healthy snack bars is very competitive and dominated by a few large companies who spend large amounts of money on advertising. The market is growing rapidly – some market researchers estimate by 34 % *per annum*. There are many examples of small businesses entering the market successfully on a small scale. Kayla estimates the proposal would involve an investment of \$100 000, with forecast net returns of \$80 000 for four years. Aran thinks that the money could be better spent on marketing Enrich drinks.

- (a) Define the term *batch production*. [2]
- (b) Based on a target of 160 000 for the first year of production at Detox, calculate:
- (i) the gross profit generated by Detox; [2]
- (ii) the net profit margin of Detox. [2]
- (c) With reference to *Accord*, explain **one** advantage **and one** disadvantage of an organizational structure based on product. [4]
- (d) Discuss Kayla’s plan to produce a range of snack bars. [10]
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