Diploma Programme
Programme du diplôme
Programa del Diploma

Business management
Standard level
Paper 1

Monday 26 October 2020 (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]**.

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Section A

Answer **two** questions from this section.

1. (a) With reference to *DA*, outline **two** suitable methods of sampling (lines 112–113). [4]

(b) Explain the factors that *DA* would need to consider before deciding to outsource some of its production (line 110). [6]

2. (a) Outline **two** STEEPLE factors that have influenced *DA*'s business strategy. [4]

(b) Explain how knowledge of the product life cycle may have influenced *DA*'s product range. [6]

3. (a) Outline **one** benefit of Viv's leadership style **and one** benefit of Salah's leadership style (lines 82–84). [4]

(b) Explain suitable sources of finance for **Option B**. [6]

Section B

Answer the following question.

4. *DA*'s board must make two major decisions.

Decision 1: *DA* needs to reduce employment costs. A new system of pay and benefits is under consideration. This includes:

- changing from an annual salary to low basic wages with profit-related bonuses
- reducing social benefits for employees, such as paying market rents for the housing in Ville d'Ablet and having to pay for the use of the leisure facilities
- offering generous compensation payments to employees who are prepared to leave the business.

Decision 2: The three options from *DA* directors (lines 105–143) must be considered.

Immediately prior to the board meeting, Mia withdrew her proposal (**Option C**).

There is now additional information available on the remaining options.

Option A: Louise's proposal – market development

Louise plans to target the mass market and proposes using the brand name DuLow for the redesigned products. She is planning for *DA* to outsource production to *Star Electrics* (*SE*). *SE* uses mass production together with some customization of products. *SE* keeps costs low by importing cheap raw materials and paying low wages.

Ben, the human resource management director, is concerned about the impact this change would have on *DA*'s employees.

Option B: Salah's proposal – product development

Salah's plan requires new production lines, one for each product. Salah proposes using cellular manufacturing. The investment cost is estimated to be €500 million. Salah estimates the following net cash inflows (excluding the initial investment cost).

Table 1: Forecast financial information for Option B (figures in € millions)

Year	Net cash inflow (excluding initial investment cost of €500 million)
1	50
2	150
3	200
4	300
5	400

Louise thinks the option is expensive. Dodi, the finance director, thinks that the investment is too large and he believes that some shareholders are also concerned about the size of future dividends. Salah believes that shareholders will be pleased about the revenues that this investment will generate. Mia is worried that the products would be expensive to produce and that demand might fall in five to seven years.

(a) Define the term *retained profit*. [2]

(b) Using **Table 1**, calculate for **Option B**:

(i) the average rate of return (ARR) (*show all your working*). [3]

(ii) the payback period (*no working required*). [1]

(c) Explain **one** advantage **and one** disadvantage for *DA* of replacing the current pay system and benefits with the proposed employment package (**Decision 1**). [4]

(d) Using the case study and additional information from Section B, recommend whether *DA* should choose **Option A** or **Option B** (**Decision 2**). [10]