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ANSWERS

Business Management

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Section 1.1

Activity 1.1.1

The business functions that are most likely to undertake the following roles are:

- Setting prices of new products – marketing
- Recruiting a new production manager – HR
- Allocating resources to purchase capital equipment – finance
- Deciding on the appropriate levels of stocks for raw materials – operations management
- Finding out if consumers prefer one product design to another – marketing
- Determining the level and number of employees the business needs for future operations – HR.

Activity 1.1.2

Research task.

Activity 1.1.3

1. 'Economic sector' is the type of business activity (primary, secondary, tertiary and quaternary) an organisation is involved in.
2. The articles suggest that BP operates in the following economic sectors:
 - 'Huge oil find' – primary sector
 - 'Castillon refinery' – secondary sector
 - '800 petrol stations' – tertiary sector.
3. HR, finance, marketing, and operations management are all part of opening the petrol stations in China, so they will need to cooperate and work together by:
 - Creating jobs in their organisation – HR
 - Producing goods and services – operations management
 - Promoting goods and services for consumers and businesses to buy – marketing
 - Selling goods and services that generate revenues and costs – finance.

Exam practice question

1. The 'tertiary sector' is business activity that provides services to consumers and other businesses, such as retailing, transport and insurance.



2. The factors of production needed to produce CVs for school leavers might be:
 - Raw materials – paper
 - Capital – computers
 - Labour – design workers
 - Entrepreneurship – Jessica Lyons.

3. Entrepreneurs might choose to set up businesses in the service sector because:
 - It is a growing sector or economy, particularly in developed countries
 - Start-up costs are often low
 - They can often be set up as small businesses.

4. The advantages of setting up a business in a recession might be:
 - Low cost of initial investment
 - Low labour cost
 - Low interest cost
 - Low cost of raw material inputs
 - Potentially growing market.

The disadvantages might be:

- Low consumer demand
- Banks and creditors may be unwilling to lend
- Pressure to set low prices.

Key concept question

Innovation might be important in starting a new business for the following reasons:

- Development of new products
- Meeting the changing needs and desires of consumers
- Entry into new markets
- Development of new production systems
- Gaining an advantage over competition
- Leads to low prices
- Leads to better quality products.



Chapter 1.2

Activity 1.2.1

1. A 'sole trader' is a business in which one person provides the permanent finance, has full control of the business and is able to keep all of the profits.
2. A possible advantage for Helene being a sole trader could be one of the following:
 - Easy to set up
 - The owner is in control
 - The owner keeps the profit.

A possible disadvantage of being a sole trader could be one of the following:

- Unlimited liability
 - The owner is responsible for all aspects of management
 - Problems of raising finance.
3. Benefits of introducing a partner to Helene's business might include:
 - Utilising any specialist skills a partner may have
 - Additional finance
 - Shared decision-making.

Activity 1.2.2

1. A public limited company is a business that sells shares in its organisation to the general public through a stock exchange.
2. Potential benefits of going public might be:
 - Limited liability
 - Continuity of existence
 - Access to significant finance.
3. Potential drawbacks of going public might be:
 - Legal requirements on formation and disclosure of information
 - Loss of control to shareholders
 - Risk of takeover.



Activity 1.2.3

1. A 'cooperative' is a group of people acting together to meet the common needs and aspirations of its members, sharing ownership and making decisions democratically.
2. Reasons why a cooperative like MONDRAGON might have an advantage over a private enterprise include:
 - It can keep profits to re-invest in the organisation
 - Motivation for employees who can share in the profits
 - Easier to make long-term decisions.
3. Two disadvantages an organisation might face as a cooperative include:
 - Democratic approach slows down decision-making
 - Access to investment finance is more difficult
 - Prevents the organisation from making decisions to reduce labour costs.

Activity 1.2.4

1. Features of microfinance loans provided by Mibanco are:
 - Loans made to individuals on low incomes
 - Loans made to small businesses
 - High interest rates
 - Small loans made.
2. Advantages of microfinance to small business might be:
 - Access to finance not available from commercial banks
 - Access to small loans
 - Favourable terms on loans in terms of interest rates and repayment periods.
3. The problems microfinance providers may face in trying to be profitable might be:
 - Non-repayment if borrowers go out of business
 - Small loans have high administrative costs per loan made
 - The high cost of obtaining capital to make loans
 - Low income of borrowers restricts the interest rates lenders can charge.

Activity 1.2.5

1. A 'public-private partnership' (PPP) involves the private sector, in the form of management expertise and/or financial investment, in public sector projects aimed at benefiting the public.



2. Reasons why the city government decided to create Capital Waste Disposal plc as a privatised business might be:
 - To raise finance
 - To improve efficiency
 - To reduce political interference in decision-making.

3. Disadvantages of the city government privatising waste disposal might be:
 - Higher prices in the short term when government support is removed
 - Shareholders have lower profits in the short term as profits need to be invested in new capital
 - Workers may face redundancy.

4. The advantages of the public-private partnership for building a new waste recycling plant might be:
 - Access to private sector finance
 - Private sector expertise in managing the organisation
 - Private sector profits and competition create incentives for performance.

The disadvantages might be:

- Private business desire for profits might conflict with public service
- Cost cutting by the private business might lead to redundancies
- Private business may have a more short-term view than the public sector business.

Exam practice question

1. A 'partnership' is a business formed by two or more people to carry on a business together with shared capital investment and responsibilities.

2. Benefits to Larry Page and Sergey Brin starting Google as a partnership might be:
 - Shared finance
 - Shared expertise
 - Joint involvement in decision-making.

3. Possible problems Larry Page and Sergey Brin might encounter as a partnership might be:
 - Profits are shared
 - Unlimited liability
 - Raising finance.

4. The advantages of Google converting to a public limited company in 2004 might be:
 - Limited liability
 - Continuity
 - Access to significance finance



- Separate legal identity.

The disadvantages of going public include:

- Legal requirements on formation and disclosure of information
- Loss of control to shareholders
- Risk of takeover
- Fluctuations in share price.

Key concept question

The impact of different types of organisational ownership on business strategy might include:

- Objectives of the organisation (private business/cooperatives/public sector organisations)
- Number of owners (sole trader/plc)
- Nature of owners (private limited company/plc)
- Accountability to society (private business/public sector organisation)
- Scale of activity (sole trader/plc)
- Access to finance (partnership/plc).



Section 1.3

Activity 1.3.1

Research task.

Activity 1.3.2

1. 'SMART objectives' are operational business objectives that are: Specific, Measureable, Achievable, Realistic and relevant, and Time-specific.
2. The corporate objectives for Domestic Detergents are SMART objectives on the basis that they are:
 - Specific – 'enter a new market every 18–24 months' is specific
 - Measureable – 'achieve 30% of sales each year from products not in the company's product line five years earlier' is measureable
 - Achievable – 'highest quality producer in the household products industry' (but the outcome is unknown)
 - Realistic – 'achieve a 15% average annual growth in sales' (but the outcome is unknown)
 - Time-specific – 'increase annual sales from \$1 billion to \$2 billion in five years' is time-specific.
3. The benefits to Domestic Detergents of specific time-limited objectives might be:
 - Clear objectives
 - Easily measureable
 - Managers know if they are achieved or not.

The limitations might be:

- Difficult to know what is specifically achievable in a set time
- Business environment might change
- No account is taken of non-specific/time factors.

Activity 1.3.3

1. A 'corporate code of ethics' is the set of ethical standards and values which a business states and operates by.
2. SCG and its employees might benefit from a corporate code of ethics in the following ways:
 - It might make the company more attractive to customers
 - More attractive to new potential employees
 - Good publicity



- Less likely to attract negative government attention
- Employees are motivated by the ethical nature of their work.

3. A business like SCG might use unethical methods if it is a way of:

- Gaining customers
- Accessing suppliers
- Setting up production
- Hiring employees.

These methods may be justified if the benefits to the country they are setting up in are greater than the costs of the unethical methods.

Activity 1.3.4

1. a. Business ethics are the set of ethical standards and values a business sets out in the way it operates.
b. A socially responsible business is one whose strategic objectives, decision-making and operations include the welfare of all its stakeholders.
2. Factors that might encourage a business to adopt socially responsible objectives and strategies could be to:
 - Attract the best employees
 - Positive publicity
 - Increase the stock market valuation of the business.
3. The benefits of Shell working towards being the 'leading multinational in economic, environmental and social responsibility' might be to:
 - Attract the best employees
 - Increase the stock market valuation of the business
 - Attract customers
 - Gain positive publicity
 - Reduce government interference.

The costs might be:

- Financial costs
- Losing certain customers and contracts
- Making projects more complex
- Reducing opportunities in certain markets.



4. Businesses should change their strategies to become more responsible over time if they want to:

- Attract the best employees
- Increase the stock market valuation of the business
- Attracting customers
- Gaining positive publicity
- Reducing government interference.

Activity 1.3.5

1. Virgin Atlantic is trying to reduce the amount of jet fuel it uses to be more socially responsible, which might:

- Attract customers
- Gain positive publicity
- Satisfy the socially responsible desire of the management and employees.

2. The extent to which Virgin Atlantic will benefit from its attempts to reduce air pollution and be more socially responsible might depend on whether it:

- Attracts the best employees
- Increases the stock market valuation of the business
- Attracts customers
- Gains positive publicity
- Reduces government interference.

But the policy may have the following consequences:

- Financial costs
- The company may lose certain customers if prices rise
- It may make operations more complex.

Activity 1.3.6

1. a. A 'mission statement' outlines the overall purpose of an organisation.

b. STS's new, socially aware mission statement might have the benefit of:

- Attracting customers
- Gaining positive publicity.



2. a. SMART objectives are operational business objectives that are: Specific, Measureable, Achievable, Realistic and relevant and Time-specific.
- b. Problems that might arise from STS not having SMART objectives could be:
 - They do not give specific direction to managers and employees
 - It is difficult to see whether they have been achieved.
3. The extent to which STS is being successful in achieving its objective 'to maximise returns to shareholders through a strategy of aggressive growth' might be assessed on:
 - \$5m rise in sales each year
 - Sales revenue is rising at a faster rate (14%) than market growth (12.5%)
 - Market share is growing
 - 100% increase in net profit for 2013–14
 - The falling number of employees reduces costs.

Activity 1.3.7

1. Peugeot Citroën's aims fit the SMART criteria in that they are:
 - Specific – 'profit margin to increase from 2% to 7% by 2015'
 - Measureable – 'to reach 4 million car sales by 2015'
 - Achievable – unknown
 - Realistic and relevant – unknown
 - Time-specific – 'one million car sales in emerging markets by 2015'.
2. The importance of the chairman not only setting an overall aim but setting departmental objectives might be:
 - Departments have clear targets
 - The performance of departments can be measured
 - If each department achieves its target the overall objective might be met
 - It is possible for the management to see why overall objectives are not met or exceeded.
3. The needs of Peugeot Citroën's shareholders might be higher dividends and a rising share price. The following objectives might deliver this by increasing sales, reducing costs and increasing profits:
 - 'Profit margin to increase from 2% to 7% by 2015'
 - 'To reach 4 million car sales by 2015'
 - 'One million car sales in emerging markets by 2015'
 - '8000 job losses'
 - 'Fixed manufacturing costs cut by 30%'
 - 'Cost of purchasing car parts cut by 4–6%'
 - '12 new models launched in the Chinese market'.



Activity 1.3.8

1. SWOT analysis of LVM:
 - Strength – automation of the screen assembly plant
 - Weakness – restricted factory space
 - Opportunity – expanding market in Asia
 - Threat – rising interest rates.
2. SWOT analysis to a business such as LVM might be beneficial in strategy formulation in the following instances:
 - Matching a business's strengths to a competitive market
 - Understanding the weakness it has to overcome
 - Seeing opportunities in the market it might exploit
 - Being aware of external threats it has to deal with.
3. Strategic options LVM might choose based on the SWOT analysis might be:
 - Expanding its market into Asia. This has the opportunity of an expanding market in Asia, using an efficient assembly plant. Increasing capacity might be difficult with restricted factory space and there is a threat of a changing exchange rate.
 - Reducing its exposure to loan finance if interest rates increase by using government grants. This is an opportunity for low-cost finance but there is the threat of government intervention. The strength is the reputation of the business, but there are cash flow concerns.

Activity 1.3.9

1. Caffè Nero and Asda might need long-term plans to help them achieve their objectives because:
 - It gives managers and employees long-term direction
 - It can assess its long-term achievements against the objectives it sets.
2. a. Three aspects of the Turkish consumer market Caffè Nero might find useful in its strategic decision making are:
 - How much coffee consumers drink
 - The type of coffee that is most popular
 - How regularly consumers drink coffee in coffee shops.

b. An understanding of the Turkish consumer market might be useful to Caffè Nero because:

 - It might help them to know how many coffee shops to open
 - It might help them to know the type of coffee to sell.



3. Caffè Nero and Asda have used Ansoff's matrix in the following way:
 - Caffè Nero is looking to sell its existing coffee shop product in a new market (Turkey)
 - Asda is using market penetration by marketing its existing supermarket brand through reducing its prices, and by product development through selling non-food products in its shops.

4. The long-term plans or strategies adopted by Caffè Nero and Asda might be affected by:
 - Changes in consumer tastes
 - New competition in the market
 - Substitute products
 - Rising supplier costs
 - The availability of new employees
 - Economic factors like economic growth, inflation and unemployment
 - Developments in technology.

Exam practice question

1. Nike might have a mission statement to set out its core aims that motivate its employees.

2. Strategic objectives Nike might try to achieve could be to:
 - Increase shareholder returns
 - Increase market share
 - Increase net profits.

(These objectives may have a set value and time period.)

3. The main components you might expect to see in an environmental audit could be:
 - Health and safety record
 - Contribution to local community events
 - Proportion of suppliers that come from ethical sources
 - Feedback from customers on the organisation's ethical standards.

4. The advantages of Nike becoming socially responsible might be that it:
 - Attracts the best employees
 - Increases the stock market valuation of the business
 - Attracts customers
 - Gains positive publicity
 - Reduces government interference.



The disadvantages of Nike becoming a socially responsible might be that it:

- Increases financial costs
- Loses certain customers if prices rise
- Makes operations more complex.

Key concept question

Organisation objectives might differ between two cultures in terms of:

- Vision statement
- Mission statement
- Corporate/strategic objectives
- Divisional objectives
- Departmental objectives
- Individual targets.

The different cultural objectives may include:

- Profit maximisation
- Profit satisficing
- Growth
- Market share
- Survival
- Ethical objectives.



Section 1.4

Activity 1.4.1

1.
 - a. A socially responsible business is one whose strategic objectives, decision-making and operations include the welfare of all its stakeholders.
 - b. Maximising profits is where the business makes the highest possible profits from its operations in a given time period.

2. The interests of the following stakeholders might be:
 - Shareholders – profits and dividends
 - Banks and other creditors – security of loans made
 - Employees – job security.

3. The impact of closure by KL Kepong of one of its palm oil plantations on stakeholders might be:
 - Employees – lose their jobs
 - Suppliers – lose sales to a customer
 - Government – lose tax revenue.

4. Expansion of the palm oil industry may lead to the following conflicts between stakeholders as these groups benefit:
 - Employees – job opportunities
 - Shareholders – higher profits and dividends
 - Suppliers – higher sales and profits
 - Government – greater tax revenuebut these groups might lose:
 - Local residents – disruption and displacement
 - Competitors – falling sales and profits
 - Government – cost of dealing with pollution
 - Employees – exploited by low wages.



Activity 1.4.2

1. The positive and negative effects on two other stakeholder groups of the following decisions might be:

Expansion of the business –

- Government: more tax revenue but cost of extra traffic management
- Banks: more profit from loans but increased risk of default.

Takeover –

- Government: more tax revenue but regulation of the takeover
- Banks: more profit from financing the takeover but risk of default if the takeover goes wrong.

New methods –

- Government: more tax revenue but rise in unemployment might increase unemployment benefit costs
- Banks: profits from financing the IT development but risk of default if the development goes wrong.

2. Situations where stakeholders get mutual benefits in an organisation:

- When an organisation distributes the benefits to all stakeholders. This is dependent on the way the business is managed, such as if sales and profits rise and these benefits are distributed to employees, shareholders and managers.
- The benefits may not be mutual if the management of the organisation does not distribute the benefits equally in the organization – for example, where senior managers reward themselves excessively or profits go solely to shareholders.

Activity 1.4.3

1. Two internal stakeholder groups that might benefit from rising sales and profits could be:

- Employees – higher pay and greater job security
- Shareholders – higher dividends and rising share price.

Two external stakeholders that might benefit from rising sales and profits could be:

- Banks – higher profits from more lending and greater security of existing loans
- Government – more tax revenue.

2. Stakeholders that might gain mutual benefit if sales and profits are rising include:

- Employees – higher pay and greater job security
- Shareholders – higher dividends and rising share price.

However, if a business decides to cut its costs there may be a conflict if:



- Employees see incomes fall and there are redundancies
- Shareholders see profits and share prices rise.

Activity 1.4.4

1. The two airlines seem more focused on shareholder interests because of:
 - Increased focus on profits
 - Closure of small regional airports
 - Cost cutting through redundancies.
2. It might be difficult for the merging group to meet their responsibilities to all stakeholder groups because:
 - Shareholders want to see profits and the share price rise
 - Consumers want lower fares
 - The local community want to see their service continue
 - Employees want to keep their jobs.
3. The merger may not be as profitable as expected if:
 - The redundancy costs are very high
 - Consumers are put off the business through bad publicity
 - The government puts costly regulations on the airline.
4. The merged business may meet some of its responsibilities to the stakeholder groups worst affected by:
 - Paying generous redundancy, although this increases the cost of the takeover
 - Restricting the flights it expects to cut, but this means flying unprofitable routes
 - Employ staff from unprofitable routes on new routes, but this may mean that labour costs are higher.

Exam practice question

1. Internal stakeholders are **within** the business and include:
 - Employees of GCM
 - Managers of GCM.

External stakeholders are **outside** the business and include:

- Asian Development Bank
- World Development Movement.



2. Two stakeholder groups that might benefit from the mine project are:
 - Employees – higher pay and greater job security
 - Shareholders – higher dividends and rising share price.

3. Two stakeholders that might adversely affected by the mine project are:
 - Local residents – disruption and displacement
 - Employees – exploited by low wages and dangerous working conditions.

4. GCM might be able to reduce the impact of the disadvantages created for the stakeholder groups by the mine by:
 - Putting in place effective plans for the environmental problems caused by the mine
 - Relocating/housing displaced people
 - Re-investing profits in local community projects
 - Paying fair wages to mine employees
 - Providing good working conditions for employees in the mine.

These measures may increase GCM's costs and reduce its profits.

Key Concept Question

Culture might influence different stakeholder groups in the following ways:

- Employees – the hours people work
- Managers – how they relate to subordinates
- Shareholders – their attitude to risk
- Banks and creditors – the terms of their loans
- Customers – their buying habits.

Ethics might influence different stakeholder groups in the following ways:

- Employees – their attitude to unethical work
- Managers – whether they manage in an ethical way
- Shareholders – their reaction to the ethical direction of the organisation
- Banks and creditors – their ethical approach to making loans
- Customers – whether products will be produced unethically.



Section 1.5

Activity 1.5.1

Research task.

Activity 1.5.2

1. Increase in the labour force between 2000 and 2020: 83.75%.
2. The following changes are forecast to take place to the age distribution of the working population of the country. The percentage of:
 - 15–24 year olds will fall
 - 35–54 year olds will increase
 - 25–34 and 55–64 year olds will rise marginally.
3. The following changes are forecast to take place to the educational attainment of the country. The percentage of people educated to:
 - Primary level only will fall
 - Lower and middle secondary will fall
 - Tertiary (university) will rise.
4. The changes in demography and educational level might have the following effects on a business's human resource management:
 - Rising number of older job applicants (age 35–54)
 - Ageing work force
 - Increased education level of job applicants
 - More educated labour force
 - More skilled and older labour force may ask for higher wages
 - Labour force may be more skilled and productive.

Activity 1.5.3

Research task.



Activity 1.5.4

1. 'Information technology' (IT) is the use of electronic technology to gather, store, process and communicate information.
2. The increased use of technology in IT might benefit supermarkets' customers in the following ways:
 - Increased efficiency reduces unit costs and make goods cheaper
 - Orders can be made online and goods delivered to homes
 - Self-service checkouts reduce queuing times.
3. The benefits of RFID to collect data might benefit supermarkets in the following ways:
 - More targeted marketing
 - Ordering from suppliers is more efficient
 - Changes in consumer taste and preferences can be seen more easily.
4. The advantages of the wider use of IT in supermarket retailing might be:
 - More efficient systems reduce unit costs
 - Online ordering and delivery increases sales
 - Digital marketing increases sales.

The disadvantages of the wider use of IT in supermarket retailing might be:

- Online price comparisons make the consumer more price conscious and reduce profit margins
- Increased use of self-check outs reduces the 'personal touch' of customer service
- Increased competition from online retailers, particularly in non-food areas.

Activity 1.5.5

1. 'Inflation' is the sustained increase in the general level of prices in the economy.
2. Inflation might have the following effects on businesses in China:
 - Costs of production increase
 - Consumers have less disposable income to spend on goods and services
 - Interest rates rise which increases borrowing costs.
3. Interest rate rises in China might affect businesses in the following ways:
 - A reduction in demand for a business's goods as consumers have higher borrowing costs
 - An increase in business costs as they have to pay more interest on borrowed funds.



4. High-speed growth in China might bring the following advantages to businesses:

- Rising demand for their goods
- Better infrastructure and public services because the government collects more tax
- Lenders and investors are more willing to provide finance in a growing economy.

It may also bring the following disadvantages:

- Lower unemployment, which reduces applicants for jobs
- Higher costs as wages and raw material prices rise
- Rising interest rates increasing borrowing costs.

Activity 1.5.6

1. Two reasons for India's growing air pollution problem might be:

- Increased car use
- Increased factory output.

2. The measures proposed to reduce air pollution might influence objectives and strategies of multinationals in the following ways:

- Stopping production in India and relocating somewhere else
- Shifting their most air polluting activities to another country
- Shutting down their most air polluting areas of production
- Investing in non-polluting producing technology
- Stopping selling/reducing air pollution producing goods (cars) to India
- Renewable/clean energy businesses expanding into India.

Activity 1.5.7

Political instability might have the following effects on businesses in the Crimea:

- Sales fall as consumers become more wary
- Costs rise as imports become expensive if there are restrictions
- Operations become more difficult if there is unrest
- Investment finance is more difficult to attract from abroad
- Loan finance is more difficult to attract from abroad
- Costs rise as insurance and security costs become more expensive
- Exporting is more difficult if there are restrictions.



Activity 1.5.8

1. China introduced new employment laws to improve working conditions for workers.
2. The employment laws might:
 - Help business interests if worker motivation rises
 - Damage business interests if employment costs rise.
3. Research task.

Activity 1.5.9

1. India and Malaysia introduced new laws to improve consumer rights and protection.
2. The consumer laws might:
 - Help business interests if protected consumers buy more
 - Damage business interests if complying with regulations increases costs.
3. Research task.

Exam practice question

1. 'Economic growth' is the rise in real GDP of a country over a given time period.
2. Starbucks might be attracted to open outlets in Vietnam because of:
 - The large potential market
 - Low set-up costs
 - Low production costs.
3. Problems Starbucks might face when opening outlets in Vietnam might include:
 - The bureaucratic regulatory framework
 - Different consumer tastes
 - Political resistance to multinationals.
4. STEEPLE analysis might have the following benefits to Starbucks as it enters the Vietnamese market:
 - Provides an assessment of each aspect facing the business



- Can be used to develop the opportunities and threats in a SWOT analysis
- Can be used to develop strategic objectives
- Helps localised decision-making.

A steeple analysis has the following weaknesses:

- The results are generalised across the economy
- It changes over time
- It is difficult/impossible to quantify certain aspects.

Key concept question

Increased globalisation might have impacted on business strategy in the following ways:

- Increased number of potential customers
- More diverse range of consumers
- Increased level of competition
- Access to employees from different countries
- Ability to set up and produce in different countries
- Access to an increasing range of suppliers.

Cultural change might have impacted on business strategy to take into account the following:

- Taste and preferences of consumers
- Attitudes of employees
- Government regulation on business
- Aims of shareholders
- Attitudes of lenders and creditors
- Influence of special interest groups
- Attitude of suppliers.



Section 1.6

Activity 1.6.1

1. Two problems Ben might face operating at full capacity include:
 - The business cannot take on new orders
 - There is a risk of capital breaking down
 - Pressure on employees.
2. Buying in a new machine means the business maintains control over supply and does not rely on another business.
3. Cost advantages of the business expanding its scale of production might be:
 - Buying in bulk
 - Selling in bulk
 - More efficient, larger scale capital.

Activity 1.6.2

1. 'Internal growth' is the expansion of a business by means of opening new branches, shops or factories (also known as organic growth).
2. Starbucks may have adopted such a rapid growth strategy to:
 - Gain advantage over competitors by being first into the market
 - Exploit economies of scale to give it a cost advantage.
3. Advantages of focusing growth in China might be:
 - The large number of potential customers
 - A lack of strong potential competition
 - Relatively low set-up costs.
4. The potential economies of scale Starbucks might get from further expansion might be:
 - Purchasing economies – buying in bulk
 - Technical economies – larger-scale capital
 - Financial economies – access and cost of attracting funds
 - Marketing economies – spreading advertising and promotion costs
 - Managerial economies – attract specialist managers.



Activity 1.6.3

1. In the case studies, Jet Airways/Air Sahara and Mercedes-Benz/Chrysler are both horizontal integration.
2. a. If Jet Airways merges with an aircraft manufacturer this would be vertical integration.
b. Benefits of this merger for Jet Airways might be:
 - Reliability of supply
 - Control over the price paid for aircraft
 - Control over the design requirements of aircraft.
3. The takeover by Jet Airways of Air Sahara might have the following advantages for:
 - Consumers – lower prices because of economies of scale
 - Shareholders – potential to achieve higher profits and dividends
 - Employees – prospect of new job opportunities in a larger company.

The disadvantages might be:

- Consumers – higher prices if Jet Airways has more control over the market
- Shareholders – the cost of the takeover might initially reduce dividends
- Employees – takeovers often mean redundancies.

Activity 1.6.4

1. A 'franchise' is a business that uses the name, logo and trading systems of an existing business.
2. The benefits Harry would enjoy if he opened a franchised Pizza Delight restaurant might be:
 - Established brand name
 - Successful production system
 - Purchasing economies of scale.
3. Drawbacks of Harry agreeing to the terms of the franchise contract might be:
 - Purchasing solely from only one source might be at a higher price than the competition
 - The cost of the annual payment
 - Losing independence over things like the design of the restaurant.
4. The reason for Harry to take out the franchise might be:
 - Established brand name



- Successful production system
- Purchasing economies of scale
- National advertising
- Staff training.

The disadvantages might be:

- Purchasing solely from only one source might be at a higher price than the competition
- The cost of the annual payment
- Losing independence over things like the design of the restaurant
- New franchises might set up to provide competition
- Harry has to accept any changes made by Pizza Delight.

Activity 1.6.5

1. A 'subsidiary' is where one business owns and controls another business.
2. Possible benefits to Borges of establishing operations in India might be:
 - A large number of potential customers
 - The lack of strong potential competition
 - Relatively low set-up costs.
3. Problems Borges might encounter setting up in India might be:
 - Government regulations
 - Cultural challenges in production, like language
 - Different tastes of Indian consumers.

Activity 1.6.6

1. Two multinational companies that have located in South Africa are:
 - BMW
 - Ford.
2. Possible reasons for multinational companies setting up in South Africa might be:
 - A large number of potential customers
 - The lack of strong potential competition
 - Relatively low set-up costs because of low land costs.
3. Possible benefits to South Africa from investment by multinational companies might be:
 - Employment prospects



- Access to goods produced in South Africa rather than imported
- Export revenue from goods exported by the multinational.

4. The South African government should continue to support investment by multinational businesses in its economy because of the following possible advantages:

- Employment prospects
- Access to goods produced in South Africa rather than imported
- Export revenue from goods exported by the multinational
- Improvements in infrastructure
- Revenue for linked businesses
- Increased tax revenue.

There are, however, the following disadvantages:

- Repatriated profits
- Managerial jobs might go to the citizens of the multinational's home country
- Environmental concerns
- Exploitation of workers.

Exam practice question

1. A 'merger' is where two firms agree to join together as one firm with a single group of shareholders.
2. Average cost of production might fall as a business increases its scale of production because of economies of scale like purchasing and technical economies.
3. A potential benefit to consumers of steel from a takeover of Corus by Tata might be:

- Lower prices because of lower unit costs from economies of scale

A potential drawback might be:

- Higher prices as Tata exploits its market power (monopoly) position benefit.

4. Indian consumers might benefit from more shops being owned by larger retail businesses because of:

- Lower prices due to lower unit costs from economies of scale
- Being able to buy from a familiar branded store
- Larger shops can invest more in stores to improve the shopping experience.

The disadvantages might be:

- Higher prices if larger shops experience higher unit costs because of diseconomies of scale
- Higher prices if larger firms exploit their market power
- Less choice from a more limited range of shops.



Key concept question

Globalisation might have had the following effects on the activities of a multinational organisation:

- Increased number of potential customers
- More diverse range of consumers
- Changing taste and preferences of consumers
- Increased level of competition
- Ability to access employees from different countries
- Attitudes of employees change
- Ability to set up and produce in different countries
- Access to an increasing range of suppliers
- Government regulation on business change.



Section 1.7

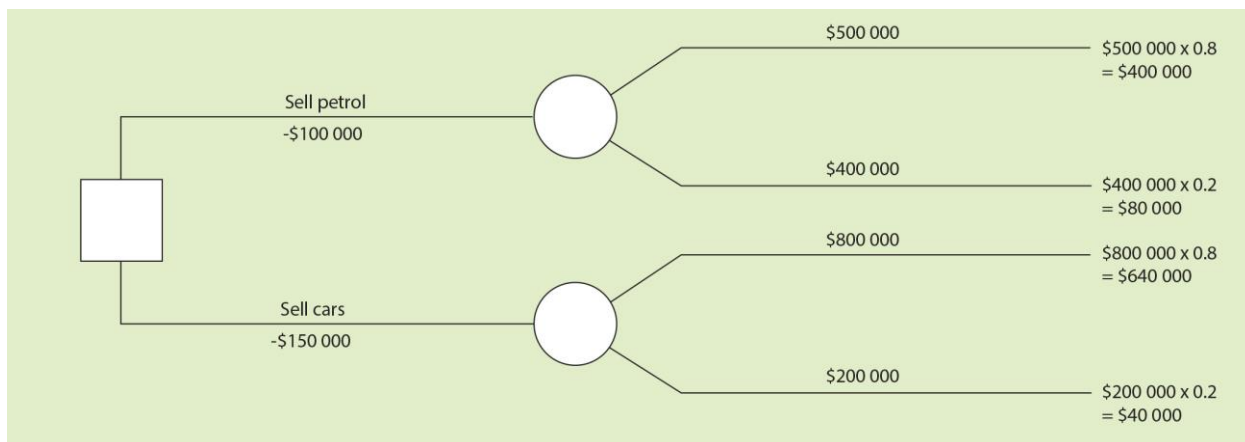
Activity 1.7.1

A fishbone diagram could explain the decline in student numbers at a 16–19 high school by:

- Getting staff to agree the problem statement: ‘reasons for the decline in the number of students ...’
- Brainstorming the main fish bones: measurement, materials, methods, environment, manpower and machines
- Brainstorming detailed reasons in the small fish bones
- Researching the findings as a group.

Activity 1.7.2

1. Decision tree for the petrol station expansion:



2. Expected values of:

- Sell petrol [$\$400\,000 + \$80\,000$] – $\$100\,000 = \$380\,000$
- Sell cars [$\$640\,000 + \$40\,000$] – $\$150\,000 = \$530\,000$

Selling cars has the higher return so on this basis it should be chosen.

3. Decision trees have the following advantages:

- They allow the visual representation of decisions and possible outcomes
- They show financial outcomes from a decision and the chances of success or failure
- Expected monetary values is a starting point for quantitative assessment.



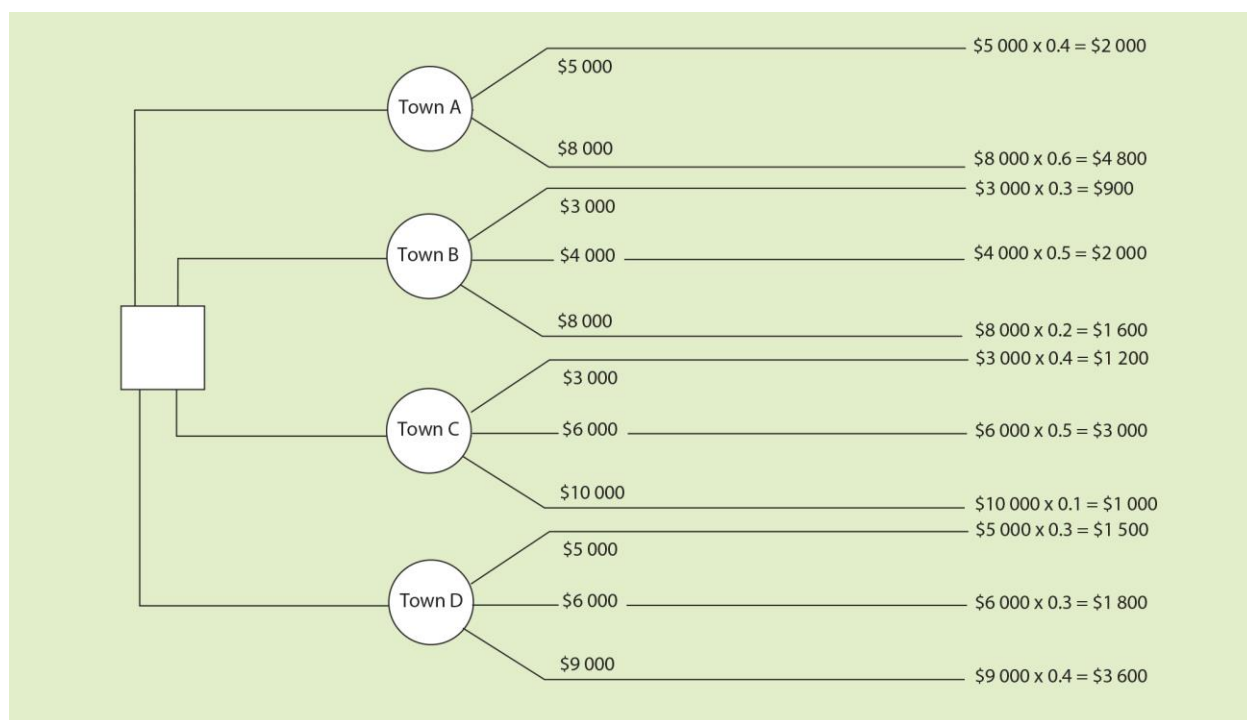
The disadvantages are:

- Forecasts are not always accurate – costs, revenues and probabilities
- No allowance for non-monetary factors
- Quantitative values change over time.

Activity 1.7.3

1. An 'expected value' is the forecasted revenue from an outcome multiplied by the probability of the outcome.

2. Joe's options:



3. a. Expected values of the four projects are:

- Town A = \$6,800
- Town B = \$4,500
- Town C = \$5,200
- Town D = \$6,900.

b. Option D has the highest expected value so it should be chosen on a quantitative basis.

4. Factors that could influence the accuracy of Joe's forecast might be:

- Entry of a new competitor into the market
- Economic slowdown (recession)
- Change in government regulations on mobile markets.



Activity 1.7.4

Lewin's force-field would be useful to a school or college planning to introduce IT-based lessons with students working from home one day a week in the following ways:

- The force-field diagram helps weigh up the importance of driving forces (student independence) and restraining forces (loss of school control).
- It helps identify the staff and students most affected by the change.
- It helps the school to strengthen the driving forces (training students to work from home) and reduce restraining forces (methods to monitor students online).
- The leadership style that reduces restraining forces encourages driving forces. Encouraging student participation in the decision may be an option here.

Activity 1.7.5

1. A 'Gantt chart' is a visual representation of a project schedule in which a series of horizontal lines shows the amount of work planned in certain periods of time.
2. Steps that can be undertaken simultaneously:
 - Explore market need
 - Develop the concept for the product.
3. By undertaking some steps simultaneously businesses can:
 - Speed up the completion of the project
 - Reduce costs.
4. The entire time for the whole project is one year (January – December).
5. Gantt charts are useful for planning new projects in terms of:
 - Ensuring the schedule of a project is achievable
 - The right people being given responsibility for activities
 - Setting out the most efficient order of activities
 - Managing activities during the project
 - Updating consumers and employees of progress.

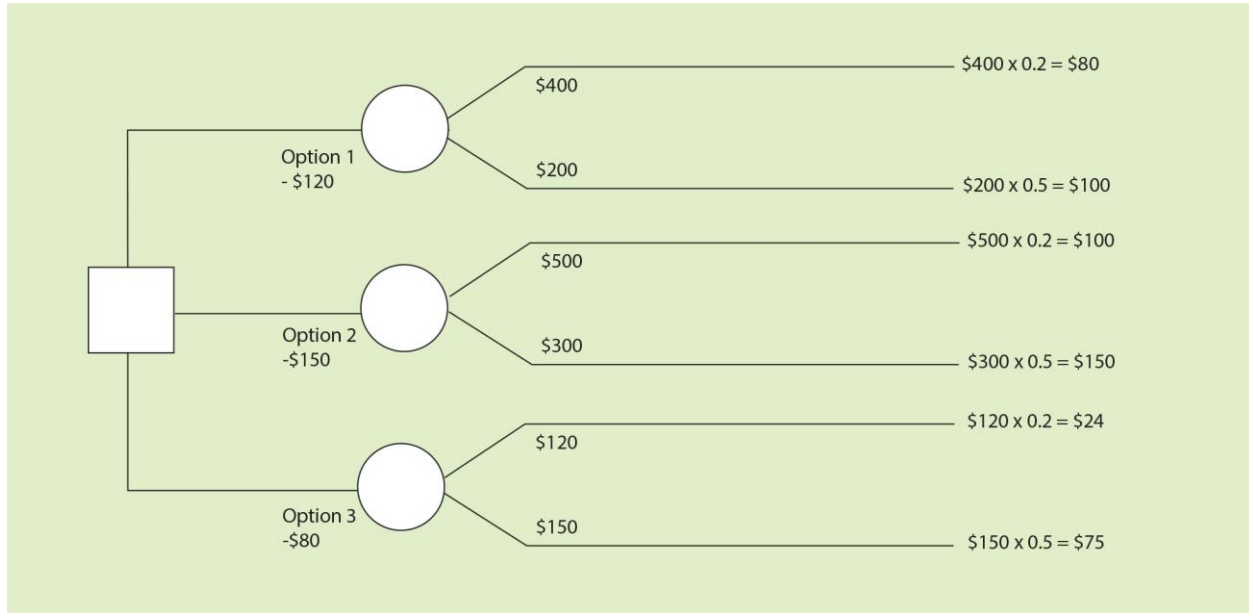
They have the following weaknesses:

- With many tasks they become very complex and difficult to interpret
- Forecasting accurate activity times is difficult
- Interrelationships between activities are not always predictable
- Limited to time factors.



Exam practice question

1. Four Seasons decision tree:



2. The expected values of each option are:

- Option 1: $\$180 - \$120 = \$60$
- Option 2: $\$250 - \$150 = \$100$
- Option 3: $\$99 - \$80 = \$19$.

Option 2 should be chosen.

3. The following non-financial factors might affect Four Seasons' decision:

- Economic slowdown
- Skills of the management
- Taste and preferences of consumers in new destinations
- Government regulations in new destinations
- Competition in new destinations
- Political stability in new destinations.

Key concept question

Business models are important for businesses strategy because they can be used to:

- Give a view on whether a strategy is achievable



- Allocate responsibility to managers
- Work out the most efficient operation method
- See what the best option is from a number of alternatives
- Plan resource needs: labour, capital and materials
- Plan finance
- Present the strategy to different stakeholders.

They have the following weaknesses:

- They can become over-complex and difficult to interpret
- Forecasting in models is subject to inaccuracy
- They are subject to outside shocks from the business environment
- Only a certain number of variables can be accounted for.



Section 2.1

Activity 2.1.1

1. 'Labour mobility' is the extent to which workers are willing and able to move to different jobs requiring different skills.
2. Benefits migrant labour might bring to businesses in a developed country like Germany might be:
 - Lower labour costs
 - Access to skilled labour
 - More motivated workers.
3. A developed country like Germany might attract migrant workers with appropriate skills by:
 - Advertising jobs in overseas markets
 - Offering favourable employment conditions
 - Offering work permits and visas.
4. The advantages a country like the Philippines might get from migrant workers leaving the country could include:
 - Migrant workers sending money back to their country
 - Migrant workers bringing skills back to the country when they return
 - Creation of new opportunities for workers within the developing country.

The disadvantages might include:

- A loss of skilled labour
- Increased labour costs
- Loss of tax revenue.

Activity 2.1.2

1. 'Redundancy' is where a job a worker has been doing is no longer required and they have to leave the business.
2. Human resource planning might be important to Peugeot for:
 - Knowing how many employees are needed to run the business efficiently
 - Knowing what employee skills are required to run the business efficiently
 - Planning changes in the number of employees and their skills in the future.



3. Factors that might influence the number of workers employed by Peugeot include:

- Demand for the firm's goods
- Productivity of the firm's workers
- Labour turnover and absenteeism rate.

Activity 2.1.3

Research question.

Activity 2.1.4

1. A 'contract of employment' is a legal document that sets out the terms and conditions of a worker's job.

2. Effects on employers of more flexible labour contracts might include:

- Reduced labour costs
- Easier-to-manage workers
- Less time spent on labour regulations.

3. Effects on employees of more flexible labour contracts might include:

- Employees feeling more vulnerable
- More job opportunities
- Lower wages.

Activity 2.1.5

1. 'Performance appraisal' is the process of assessing the effectiveness of an employee based on set targets.

2. Aspects of ExxonMobil's employee training might include:

- On-the-job training within the business
- Off-the-job training away from the business
- Behavioural training.

3. Employee training might improve ExxonMobil's profitability by:

- Reducing unit costs as workers are more efficient
- Increasing revenue as the quality of employees' work improves
- New products developed by more skilled employees.



4. The advantages of ExxonMobil's decision to adopt more flexible working patterns might be:
- Reduced labour costs
 - Easier-to-manage workers
 - Less time spent on labour regulations.

The disadvantages might be:

- Employees feeling more vulnerable
- Communication with workers is more difficult
- Lower wages.

Activity 2.1.6

1. 'HR outsourcing' is where a business pays another business to manage its HR functions.
2. BP has outsourced the following HR functions:
 - Payroll
 - Recruitment
 - Employee record functions
 - Expatriation management
 - Relocation services.
3. Outsourcing its HR function might have reduced BP's costs through:
 - More efficient operations by the outsourced company
 - Greater efficiency at BP as it concentrates on its core functions.
4. The advantages of BP outsourcing its HR function include:
 - More efficient operations by the outsourced company
 - Greater efficiency at BP as it concentrates on its core functions
 - Lower cost of operating an HR department.

The disadvantages of outsourcing the HR function might include:

- The cost of paying for the outsourced function
- Loss of control over the quality of the outsourced function
- Redundancy costs of removing the in-house HR function.



Activity 2.1.7

HR management might support Toyota's innovation through:

- Attracting employees with innovative skills
- Training the workforce effectively
- Creating a culture that motivates and empowers innovative employees
- Effectively managing all aspects of employees' work to allow them to be innovative
- Retaining the most innovative employees.

Activity 2.1.8

1. Differences between Japanese and Chinese HR management might include:

- Chinese management using a top-down approach, whereas Japanese managers are more consultative
- A stricter hierarchy in Chinese management.

2. Two effects of an equal relationship between workers and managers in Japanese firms might be:

- Greater cooperation
- More motivated employees
- Better information flows.

3. Effects of individualism in German organisations might include:

- Employees feeling more responsible and empowered
- Quicker decision making
- Competition increases motivation.

4. The discussion might consider the problems for German businesses through the following points:

- In China: the hierarchical approach, the top-down decision-making and authoritative management style
- In Japan: the fixed gender roles, lack of individualism, the equality between managers and employees
- Language and cultural differences German managers experience when dealing with Japanese managers and workers
- Government regulations on human resources are different in Japan.

Exam practice question

1. 'Human resource management' (HRM) is the strategic approach to the effective management of an organisation's workers.



2. Google's recruitment process might include:

- Establishing the exact nature of the job
- Drawing up a person specification
- Preparing a job advertisement
- Short listing candidates
- Conducting interviews
- Appointing candidates.

3. Appointing 4000 new employees a year might bring the following benefits to Google:

- New ideas
- Competition increases the motivation of existing staff
- Attracting new customers.

4. Google's approach to the working environment might bring the following advantages:

- Creativity and innovation
- High worker motivation
- Team working and togetherness

and the following disadvantages:

- The cost of creating and managing the environment
- Workers might exploit the culture
- Some workers might not like the environment.

Key concept question

Globalisation might have the following effects on the management of human resources:

- Businesses can hire workers from overseas
- Managing employees with diverse international backgrounds
- Managing employees in dispersed geographical locations
- Managing employees with different cultural backgrounds
- International regulations on employment
- Employees seeking professional development in other countries
- Training for employees in international aspects of their work, such as languages.



Section 2.2

Activity 2.2.1

1. A 'centralised decision-making structure' means a business keeping all of the important decision-making powers within head office or the centre of the organisation.
2. The difference between centralised and decentralised decision-making in an organisation like Tata is the way decisions are taken. A centralised structure means major decisions are taken by the head office, while in a decentralised structure decisions are delegated to other offices.
3. Reasons why Tata might maintain centralised control over finance and corporate strategy include:
 - Consistent policies on important business functions
 - Decisions are taken for the good of the whole organisation
 - Decisions are taken by experienced decision-makers.

Activity 2.2.2

1. A 'hierarchical structure' is where power and responsibility are clearly specified and allocated to individuals according to their standing or position in the hierarchy.
2. Labour productivity might be lower in MAS because of:
 - Ineffective management
 - Poorly motivated workers
 - Inefficient operations management systems.
3. Possible effects on MAS's performance of separating domestic and international operations might be:
 - More local decisions can be taken that reflect local conditions
 - Delegated decision-making might empower and motivate workers
 - Decision-making can be more flexible and reactive to changing conditions.
4. The advantages of MAS delayering its organisational structure on different stakeholders might be:
 - Middle managers and employees have more decisions delegated to them, which empowers them
 - A reduction of labour costs as there are fewer middle managers
 - Decision-makers are closer to the effects of their decisions so they have better information.

The disadvantages might be:

- Senior managers have to delegate more decisions, which reduces their control



- There are fewer positions of responsibility for employees to be promoted to
- Employees need more training
- Some managers are made redundant.

Activity 2.2.3

In order to understand the cultural differences when communicating with three different stakeholder groups, Coca-Cola may consider:

- The level of formality
- The specific nature of information given
- The way information is sequenced
- The context of the information and the time sequence for the communication.

Three different stakeholder groups Coca-Cola may consider how it communicates with includes:

- Employees
- Customers
- Shareholders.

In the case of Europe (low-context cultures) Coca-Cola might need to be more specific and formal when communicating with shareholders, customers and employers, compared with in Latin American countries, where communication needs to be less formal.

Activity 2.2.4

Research task.

Activity 2.2.5

1. 'Effective communication' is the exchange of information between people or groups, with feedback.
2. Multinational organisations can communicate with customers via:
 - Email
 - Intranet
 - Text messaging.



3. Benefits to multinational businesses of using the latest communication technology when communicating with customers might include:
 - Speed
 - Low cost
 - Specific targeting.

4. The potential advantages of a business focusing on new technology for internal communication might include:
 - Reduced cost
 - Increased speed
 - Improved record keeping
 - Ability of employees to function away from business.

The disadvantages might be:

- Increased work pressure on employees
- Less face-to-face communication
- Threat of system failure
- Security threat on communication
- Investment cost in the communication system.

Exam practice question

1. 'Delaying' is the removal of one or more of the levels of hierarchy from an organisational structure.

2. Culture conflict might exist at Mitsubishi motors because of differences between:
 - Japanese and German managers
 - COO team and MMC team
 - Younger and older managers.

3. Reducing the chain of command through delaying might bring the following benefits to Mitsubishi:
 - Improved communication
 - More control for managers
 - Reduced management costs.

4. The advantages for Mitsubishi's efficiency might include:
 - Improved communication
 - More control for managers
 - Greater flexibility and ability to change.



It might also have the following disadvantages:

- Resentment among some managers towards change
- Widening the span of control of managers puts more demands on managers
- Loss of experienced managers.

Key concept question

The importance of innovation and culture in a business's organisational structure may cover the following points.

Innovation:

- Satisfies the need for the organisational structure to react to technological change
- Satisfies the need for the structure to react to market-based change
- Enables a structure that generates new ideas
- Enables a structure that can manage change effectively.

Culture:

- Helps to determine the culture of the organisation
- Satisfies the need for the organisational structure to react to cultural change
- Satisfies the need for the organisational structure to create an effective culture in the organisation
- Informs the way managers deal with employees of different cultures in the organisation structure.



Section 2.3

Activity 2.3.1

1. The management functions Rebecca fulfilled during the day are:
 - Meeting with department store managers – coordinating
 - Planning meeting with senior staff – setting objectives and planning
 - Presenting awards – motivating staff
 - Reviewing the performance of electrical products – controlling and measuring performance
 - New store planning – setting objectives and planning
 - Settling the dispute between department managers – directing and motivating staff.
2. The characteristics Rebecca might have needed to carry out her roles successfully include:
 - Organised
 - Confident
 - Forward looking
 - Caring
 - Intelligent
 - Effective communicator.
3. The store might encounter the following problems if Rebecca was not a good communicator:
 - Low staff morale
 - Operational inefficiency
 - Lack of direction
 - High staff absenteeism and turnover
 - Rising costs
 - Falling sales
 - Falling profits.

Activity 2.3.2

1. The characteristics of an autocratic leader might be:
 - The leader makes all the decisions
 - Gives little information to staff
 - Supervises workers closely
 - Only one-way communication.
2. An autocratic leadership style might be appropriate in this situation because:



- It is a crisis management situation
- A quick decision needs to be taken
- Employees need clear direction.

3. The advantages of Eli Tarranto using an autocratic leadership style might be:

- It is more effective in a crisis management situation
- Eli Tarranto needs a quick decision
- Employees need clear direction from management.

The disadvantages might be:

- It demotivates staff
- No employee input on decisions
- Business can move in the wrong direction without being questioned.

Activity 2.3.3

Research task.

Activity 2.3.4

1. Fast Nuggets uses a paternalistic management style, with strong direction from managers and some consultation.

2. Problems of this leadership style might include:

- Dependency of employees on the leader
- Low employee morale because they are not involved in decision-making
- High staff turnover and absenteeism.

3. The advantages of Fast Nuggets changing its leadership style might be:

- Improved employee morale
- Lower staff turnover and absenteeism
- More staff input in decision-making.

The disadvantages might be:

- Managers' resistance to change
- Employees' resistance to change
- Managers' loss of control.



4. If it opened branches in Japan and Europe Fast Nuggets might have to adapt its leadership style to:
- Reflect cultural differences among managers
 - Reflect cultural differences among workers
 - Enable its operations management (production) systems to work
 - Adhere to government employment regulations in these areas
 - Reflect its objectives in these two areas.

Exam practice question

1. Oscar most closely represents an autocratic manager, and Pierre represents democratic leadership.
2. Reasons why Le Menu might be advised to adopt different leadership styles if it expanded in other countries include:
- In response to cultural differences between managers
 - Because of cultural differences between workers
 - Because operations management (production) systems work differently
 - To be in line with government employment regulations in different countries
 - To reflect different aims in the countries it operates in.
3. Oscar's leadership style has the following advantages:
- Quick decision-making
 - Effective in pressure situations
 - Effective with temporary unmotivated employees.

Disadvantages:

- Demotivates some employees
- Does not allow valuable employee involvement in decision-making
- Poor decisions are not questioned.

Key concept question

The importance of strategy in the way managers lead an organisation includes:

- Degree of change – more change needed, more autocratic
- Speed of outcome – slow change, more democratic
- Difficulty of market conditions – difficult conditions, more autocratic
- Strengths and weaknesses of the business – strong business, more democratic.

The importance of ethics in the way managers lead an organisation includes:



- How well employees are treated – democratic involves employees in decision-making
- Behaviour of the business in the market – aggressive management
- The way the business reacts to regulation – management tries to exploit loop-holes in regulation and tax
- Types of products it produces – how management manage in alcohol and tobacco markets.



Section 2.4

Activity 2.4.1

1. Corie might be working at:
 - a. ISC – safety level because his social needs are not met
 - b. Index computers – esteem level because no evidence of self-actualisation.
2. Team working might be important to Corie’s motivation because:
 - It enables effective communication between team members
 - It reassures him about decisions
 - Of the social aspect of working with a team.
3. Herzberg’s research can be effectively applied to a working environment in the following ways:

Applying motivating factors through opportunities for workers for:

- Achievement
- Recognition
- Fulfilment in the work
- Responsibility
- Promotion.

Applying hygiene factors that satisfy workers in terms of:

- Company policy
- Administration
- Supervision
- Salary
- Relationships with others
- Working conditions.

Applying hygiene and motivating factors may be difficult and expensive because of:

- The number of management positions available
- Not all workers respond in the same way
- The cost of increasing wages.

Activity 2.4.2

1. The views can be applied to:



- Herzberg because the university failed to apply motivating factors such as achievement, recognition, responsibility, etc. correctly
 - Pink because the university does not apply autonomy, mastery, and purpose effectively.
2. The key views in the case study that might be applied to a hospital, clothing factory or teaching staff at a school would be the need for the organisations to give their staff the opportunity of:
- Feedback
 - Recognition
 - Involvement in decision-making
 - Control over their work
 - Job enrichment
 - Responsibility
 - Achievement
 - Well-defined tasks
 - Good communication from management
 - Growth and development
 - Education and training
 - Career paths
 - Leadership.

Activity 2.4.3

1. The payment systems for the two jobs would be:
- Driver – time-based wage rate
 - HR director – annual salary with fringe benefits.
2. The payment systems might be different because of:
- Nature of the work
 - Type of employee wanted.
3. The higher paid post might carry fringe benefits to:
- Make the job look more attractive
 - Reduce the amount of tax for the business and the employee.



Exam practice question

1.
 - a. Motivation is the intrinsic and extrinsic factors that stimulate people to take actions that lead to achieving a goal.
 - b. Responsibility is the influence, decision-making and control an employee is given over all or part of an organisation.

2. Factors that influence an employee's job satisfaction might be:
 - Level of pay – physiological needs, esteem needs
 - Team working – social needs
 - Job security – safety needs.

3. It might be easier for small firms to motivate staff compared with large firms because it is easier to:
 - Assign complete units of work
 - Provide feedback on performance
 - Give employees a range of tasks.

4. The ways a large firm can use Herzberg's motivators to improve worker motivation is to give opportunities for:
 - Feedback
 - Recognition
 - Involvement in decision-making
 - Control over their work
 - Job enrichment
 - Responsibility
 - Achievement
 - Well-defined tasks
 - Good communication from management
 - Growth and development
 - Education and training
 - Career paths
 - Leadership.

Large firms may be able to do this because they have:

- More management positions
- Financial resources to increase wages
- A wider range of tasks to offer employees.



Large firms may struggle to do this because:

- Systems can be complex and bureaucratic
- Management tend to be more distant
- Employees have less identity.

Key concept question

The methods of motivating employees in two organisations might be framed in terms of:

- Maslow
- Herzberg
- Pink.

This might include coverage of financial and non-financial methods of motivation. The cultures that could be covered include:

- Power culture – the influence of centralised management on motivation
- Role culture – the influence of a highly regulated environment on motivation
- Task culture – the influence of team working on motivation
- Person culture – how autonomous employees can be motivated.



Section 2.5

Activity 2.5.1

Research task.

Activity 2.5.2

The most appropriate cultures for the following business situations might be:

- Power culture – a business struggling with poor sales, profits and cash flow
- Role culture – where each employee needs precise direction on the work they do
- Task culture – where a business has a particular project
- Person culture – where employees are highly skilled and want autonomy
- Entrepreneurial culture – in a franchise-based organisation.

Activity 2.5.3

1. Reasons for a corporate culture clash between HP and Compaq might include:

- Different management cultures
- Historical difference in the way the businesses have developed.

2. Consequences of a corporate culture clash might include the following impacts:

- Decision-making becomes more difficult
- Motivation of staff is negatively affected.

3. The merger of HP and Compaq might lead to cultural clashes which have the following damaging consequences:

- There may be some degree of incompatibility where different cultures exist
- There could be a negative impact on decision-making
- Some staff could become demotivated
- It may make it more difficult to manage the business.

It may also lead to some positive effects:

- It might offer new/innovative ways of looking at business issues
- A poor culture in one organisation may be improved by a good culture with a merged organisation
- Conflict can resolve business problems.



Activity 2.5.4

1. 'Corporate culture' is the beliefs, values and ethos that determines how people in an organisation work.
2. Factors that have influenced Porsche's corporate culture might include the culture of the:
 - Country where the business is based
 - Founder of the organisation
 - Industry within which the business operates.
3. If Porsche focuses on:
 - Clients then they will be satisfied and this supports sales revenue
 - Workers their productivity will improve, reducing unit costs
 - Suppliers they will supply efficiently.
4. The problems of adapting corporate culture when a domestic car manufacturer is taken over by a foreign car manufacturer include different:
 - Cultures of management
 - Cultures of workers
 - Methods of operation
 - Corporate objectives
 - Relationships with stakeholders (customers, government, local community, suppliers and banks).

Activity 2.2.5

1. The problems of Barclays not having shared values might include:
 - Lack of consensus on decision-making
 - Lack of focus on corporate objectives
 - Disagreements between managers that reduces motivation.
2. The steps the CEO might take to influence and change culture at the bank might include:
 - Concentrating on positive aspects of the business
 - Gaining full commitment of key personnel
 - Establishing new, agreed objectives
 - Encouraging 'bottom-up' communication
 - Training staff in the new approach
 - Changing the staff reward system to fit with the new culture.



Activity 2.5.6

One step the new management might have to take to change the culture of the organisation is moving from having profit as a main objective to having the service of the disabled workers as a main objective.

Exam practice question

1. 'Corporate culture' is the beliefs, values and ethos that determines how people in an organisation work.
2. One possible reason why Sally thought it necessary to change corporate culture at Regal Supermarkets might be:
 - Changing to be a plc means satisfying new shareholders
 - Increased competition in the market
 - Customers becoming more price conscious.
3. The type of culture Sally has introduced might be:
 - Power/entrepreneurial culture – due to the way the change has been managed, and the values of the business have also changed.
4. The extent to which a CEO can influence the culture of an organisation might depend on:
 - How much change the CEO is trying to bring
 - Organisation structure
 - Management style of the CEO
 - Time the CEO has to make changes
 - Power/influence of senior managers
 - Power/influence of workers (unions)
 - The support of the shareholders
 - Strength of the existing culture.

Key concept question

Globalisation might bring the following changes to corporate culture:

- Beliefs, values and ethos all changed by managers, workers and shareholders that come from other countries
- Corporate aims and objectives affected by the international environment
- Competition from businesses in other countries
- Operations management systems influenced by businesses in other countries
- HRM influenced by businesses in other countries



- Government and international rules and regulations of operating in the international business environment.



Section 2.6

Activity 2.6.1

1. A 'trade union' (labour union) is an organisation of working people with the objective of improving the pay and working conditions of its members and providing them with support and legal services.
2. Responsibilities of trade unions might include:
 - Representing workers' interests during negotiations on pay and working conditions
 - Providing legal support to employees in dispute with their employers
 - Giving advice to employees in employment-related issues.
3. Employers might not want employees to join trade unions because they:
 - Force up wages and costs
 - Make it more difficult to manage workers
 - Make it more difficult for managers to bring about change.
4. The benefits to call-centre workers of joining UNI might be to:
 - Represent their interests during negotiations on pay and working conditions
 - Provide legal support
 - Give them advice on employment-related issues
 - Push wages
 - Improve working conditions
 - Prevent unfair/illegal employment practices.

This could bring the following problems:

- If wages and labour costs are forced up the business might cut jobs
- Some workers might not like being involved in union-led industrial disputes
- The union may make decisions that suit the union rather than the employees.

Activity 2.6.2

Research task.

Activity 2.6.3

1. Changes in the external business environment that might have had an incremental effect on business include:



- Increased digitisation of data makes storing and retrieving information easier
- Greater use of renewable energy increases energy costs
- Faster internet connections facilitates digital marketing.

2. Changes in the external business environment that might have had dramatic effect on business include:

- A major terrorist attack
- Government defaults on its debt
- A significant weather event (hurricane).

Activity 2.6.4

1. A 'project champion' is a person assigned to support and drive a project forward, explains the benefits of change, and assists and supports the team putting change into practice.

2. A project champion has the following roles on a new project:

- Planning
- Investigating
- Presenting at meetings
- Ensuring the availability of resources.

3. Factors that would make a project champion successful might be:

- Personal qualities of the project champion
- The willingness of the organisation to accept change
- The attractiveness of the project.

Activity 2.6.5

1. 'Change management' is the planning, implementing, controlling and reviewing the movement of an organisation from its current state to a new one.

2. Britax might face change because of:

- Competition
- Changes in technology
- Changes in government regulations.



3. Britax might reduce resistance to change by:
 - Creating a project team to lead change
 - Developing a vision and strategy for change
 - Making effective communication of the change vision.

4. The problems Britax might find as it tries to manage change could be resistant:
 - Employees
 - Management
 - Corporate culture
 - Trade unions
 - Shareholders
 - Customers
 - Banks and other creditors
 - Business environment.

Activity 2.6.6

The importance of ethics to Walmart's managers might be:

- Rights of workers to have union representation
- Pay and conditions of workers
- Influence of workers on decision-making
- Redundancy.

The importance of culture to Walmart's managers might be:

- The way that managers and employees relate to each other
- Communication within the organisation
- Reaction to conflict
- Reaction to change.

Exam practice question

1. A 'single-union agreement' is when an employer recognises just one union for purposes of collective bargaining.

2. Trade unions might benefit from collective bargaining because workers:
 - Are in a stronger negotiating position as one united voice
 - Can take industrial action more effectively.



3. A globalised union might bring the following benefits to:
 - Employers – they can negotiate with workers across national boundaries in a globalised world
 - Employees – they are represented by one organisation if they move between countries.

4. Multinational companies might be affected by the development of one large international trade union in the following ways:
 - The union representing workers is a powerful negotiating force
 - Negotiations are easier with a single union
 - They can deal with workers across national boundaries
 - They could face industrial action in more than one country.

Key concept question

Employer and employee relations may be affected in the following ways by change:

- Where it creates changes to employees' work
- Leads to redundancies
- Creates more jobs
- Leads to changes in pay rates
- Alters hierarchies.

Employer and employee relations may be affected in the following ways by ethics:

- The way managers deal with employees
- The way employees deal with managers
- A conflict between profit and employee welfare
- Management and worker reaction to conflict.



Section 3.1

Activity 3.1.1

Internal sources of funds may be unavailable or inadequate for the following reasons:

- a. Losses lead to negative cash flow and the value of assets to sell has fallen
- b. Cash outflows are rising faster than inflows
- c. Time delay between the cash inflow from the festival and the cash outflow of buying stock.

Activity 3.1.2

1. Internal finance is raised from the business's own assets or from profits left in the business (retained profit). External finance is raised from sources outside the business (bank loans).
2. Sources of internal finance that might be available to the company in the case study might be:
 - Retained profits
 - Sale of assets
 - More efficient management of working capital.
3. The advantages of the case study business raising funds through loan capital might be:
 - Bank loans and debentures are a source of accessible large-scale finance for research and development projects
 - The business keeps control over decision-making because it still retains ownership
 - Interest and repayment can be budgeted over a set time period that the business can manage.

The disadvantages might be:

- The cost of interest payments
- Repayment of the loan
- Interest rate changes can change the cost of borrowing
- Lenders can impose conditions on loans.

Activity 3.1.3

1. A benefit of subsidies to Indian leather businesses and EU farmers might be:
 - It reduces costs and increases profits
 - It can be used to finance new capital investment.



2. It might be unwise for these businesses to depend on subsidies because governments can cut or withdraw them and it is difficult to sustain the business model in the long run.

Activity 3.1.4

1. A 'rights issue' is where existing shareholders are given the right to buy additional shares at a discounted price.
2. Tata might have used a rights issue rather than long-term loans to raise finance because:
 - Share capital does not have to be repaid
 - Dividend does not have to be paid each year but interest does.
3. The impact of Tata's decision to raise new finance through a share issue on different stakeholders might be:
 - Shareholders – reduces their control and dividend per share
 - Managers – new shareholders might change the influence on decision-making
 - Employees – new shareholders change the direction of an organisation
 - Local community – profit is put ahead of social responsibility
 - Suppliers – drive to increase profits means the business puts pressure on suppliers to reduce prices.

Activity 3.1.5

1. a. 'Convertible debentures' are loans that can be switched into shares after a certain period of time.
b. 'Working capital' is the funds a business has to meet its day-to-day operations (current assets - current liabilities).
2. Raising funds by selling debentures has the following advantages:
 - Provides a source of accessible long-term finance
 - The business retains control over decision-making because it still retains ownership
 - Interest and repayment can be budgeted over a set time period that the business can manage.

The disadvantages might be:

- The cost of interest payments
- The repayment of debentures
- Administration of the debenture issue.

Exam practice question

1. a. A 'public limited company' (plc) is an organisation that sells shares in its business to the general public through a stock exchange.



- b. A 'share price' is the price of a business's shares that are traded on the stock exchange.
2. a. $\$3.42 \times 1.15 = \3.93
b. The share price of StarJet might increase in the future if:
- StarJet is profitable
 - The low-cost air travel market grows
 - There is a potential takeover of StarJet.
3. Stavros may be reluctant to raise additional capital by selling shares because:
- He could lose control of the business
 - The dividend per share of existing shares could fall.
4. The sources of funds StarJet could use to fund a future takeover includes:
- Bank loan – keep control but repayment and interest costs
 - Debentures – keep control but repayment and interest costs
 - Share issue – No payment or interest but more loss of control.

Key concept question

Ethics might have had the following influences on raising finance:

- Whether a source of finance is an ethical lender
- The loan agreement and the fairness of the terms of repayment and interest
- The ethics of the activity the finance is being raised for
- Decisions about defaulting on repayments.

Culture might have had the following influences on raising finance:

- The source of finance favoured
- Loan agreements in terms of interest and repayment
- Nature of the activity the finance is being raised for
- The potential reaction to breaking a loan agreement.



Section 3.2

Activity 3.2.1

1. Examples of overhead/indirect costs Dakota would have include:
 - Marketing
 - Administration
 - Rent.
2. Examples of direct costs Dakota would have are:
 - Labour
 - Materials.
3. Overhead/indirect costs are often considered fixed costs because they do not change with a business's level of production.
4. Problems Dakota might encounter when trying to reduce its direct cost might be:
 - Redundancy payments
 - Unions protecting wages
 - Quality of the product falls if cheaper materials are used.
5. Benefits Dakota might derive from a reduction in costs include:
 - It can reduce prices and gain market share
 - Higher profit margins
 - It can use funds the saved cost brings, in another area.

Activity 3.2.2

1. Classified costs:
 - Rent – indirect, fixed
 - Management salaries – indirect, fixed
 - Electricity – indirect, semi-variable
 - Piece-rate labour – direct, variable
 - Depreciation – indirect, fixed
 - Lease of company cars – indirect, fixed
 - Wood and production materials – direct, variable
 - Maintenance – direct, semi-variable



2. Reasons for the classification:

- Rent, management salaries, depreciation, lease of company cars and maintenance do not change with output and are spread across the different activities of the organisation
- Piece-rate labour and materials do change directly with output and can be attributed to a part of the organisation
- Maintenance and electricity is spread across the organisation but have a fixed and variable element.
- The maintenance of the chair can be attributed to part of the organisation but the cost does not vary directly.

Activity 3.2.3

1. A 'revenue stream' is the income a business receives from a particular type of business activity.
2. It might be expensive for PepsiCo and Facebook to develop a range of revenue streams because of the cost to:
 - Pepsi of promoting Gatorade and Tropicana
 - Facebook of acquiring Instagram.
3. Benefits to Facebook of developing a range of revenue streams from Instagram might be that it:
 - Is a growing market
 - Spreads risk
 - Is complementary to other Facebook products.

Exam practice question

1. 'Total revenue' is the income of the business calculated as price multiplied by quantity sold.
2. Twitter can report an overall loss when total revenue is rising if:
 - Costs are rising faster than revenue as output increases
 - Initial fixed costs of setting up Twitter are still not covered.
3. Benefits to Twitter of developing new revenue streams might be:
 - Greater revenue
 - Spreads risks
 - Complementary revenue streams.
4. The advantages of Twitter's decision to increase its scale of production includes:



- Economies of scale
- Profit growth
- Revenue rises to quickly cover set-up costs
- Growth in market influence.

The disadvantages might be:

- Diseconomies of scale
- If variable costs rise faster than revenues
- Threat to cash flow if outflows rise faster than inflows
- Pressure on staff.

Key concept question

The different strategies a business might adopt to increase revenue in a globalised business environment include:

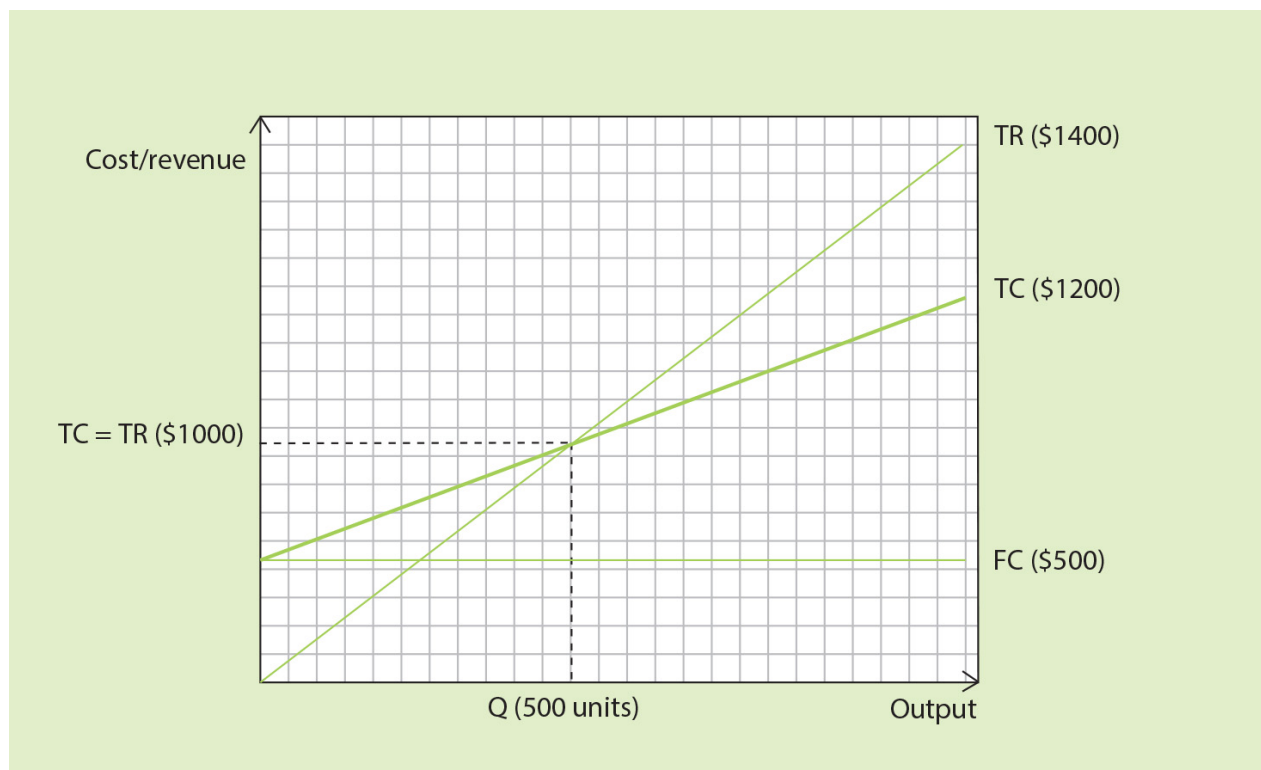
- Exporting goods to overseas markets, but there are transport costs
- Franchising production into overseas markets, but there are issues of control
- Licensing production to overseas markets, but there are issues of control
- Setting up production in overseas markets, but there are set-up costs
- Joint venture with another company to produce in an overseas market, but there needs to be agreement with another business.



Section 3.3

Activity 3.3.1

1. The 'break-even point' is the level of output at which total costs equals total revenue.
2. Hamburger stall break-even diagram:

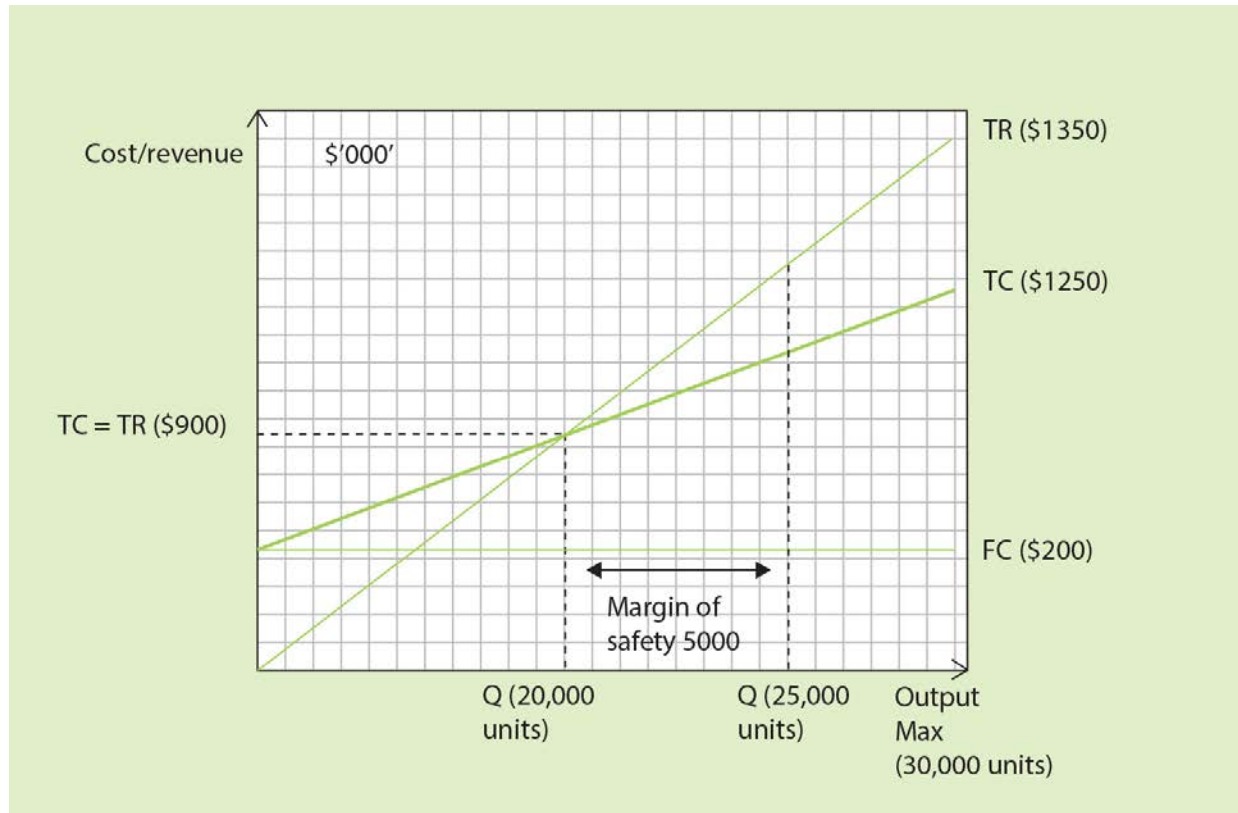


Activity 3.3.2

1. 'Unit contribution' is the selling price of the product minus its unit variable cost.



2. La Pitch's break-even diagram:



La Pitch profit:

		\$'000
Sales	25,000 x \$45	1,125
Direct costs	25,000 x \$35	875
Contribution	1,125 - 875	250
Fixed cost		200
Profit		50

3. The advantages to La Pitch reducing the price of its tents might be:

- Lower price leading to a rise in units sold and sales revenue if demand is price elastic
- Higher sales leading to economies of scale
- Rise in market share increases La Pitch's name and power in the market.



The disadvantages might be:

- Fall in contribution means the firm has to sell more to cover fixed costs
- Lower price leads to a rise in units sold but sales revenue falls if demand is price inelastic
- Makes the product's quality seem lower in the mind of the consumer.

Activity 3.3.3

1. 'Direct costs' are costs that can be clearly identified with each unit of production and can be allocated to a cost centre.
2. $[\$0.5\text{m} + \$2.8\text{m}] / [\$50,000 - \$18,000] = 103$ units.
3. Marab Sports might reduce its direct costs by:
 - Cutting the pay to direct labour
 - Making direct labour redundant
 - Negotiating a cheaper direct material price with suppliers.
4. The advantages of Marab reducing costs to increase profits might be:
 - It has more control over reducing costs than trying to increase sales
 - Cost reduction can be made quickly
 - Reduced costs can lead to reduced prices that increase sales.

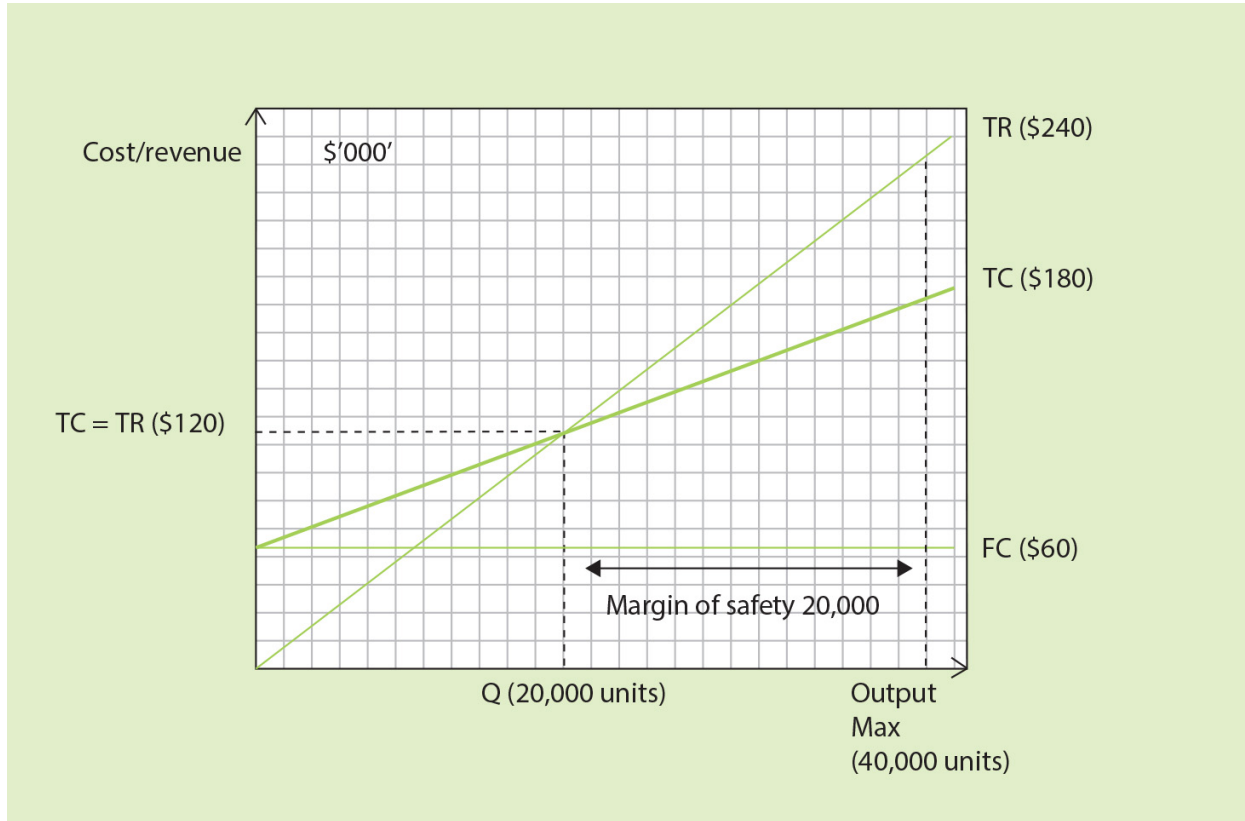
The disadvantages might be:

- Lower direct costs demotivate staff
- Lower direct materials could be lower quality
- Cutting costs damages the reputation of the business.



Activity 3.3.4

1. Site A break-even chart:

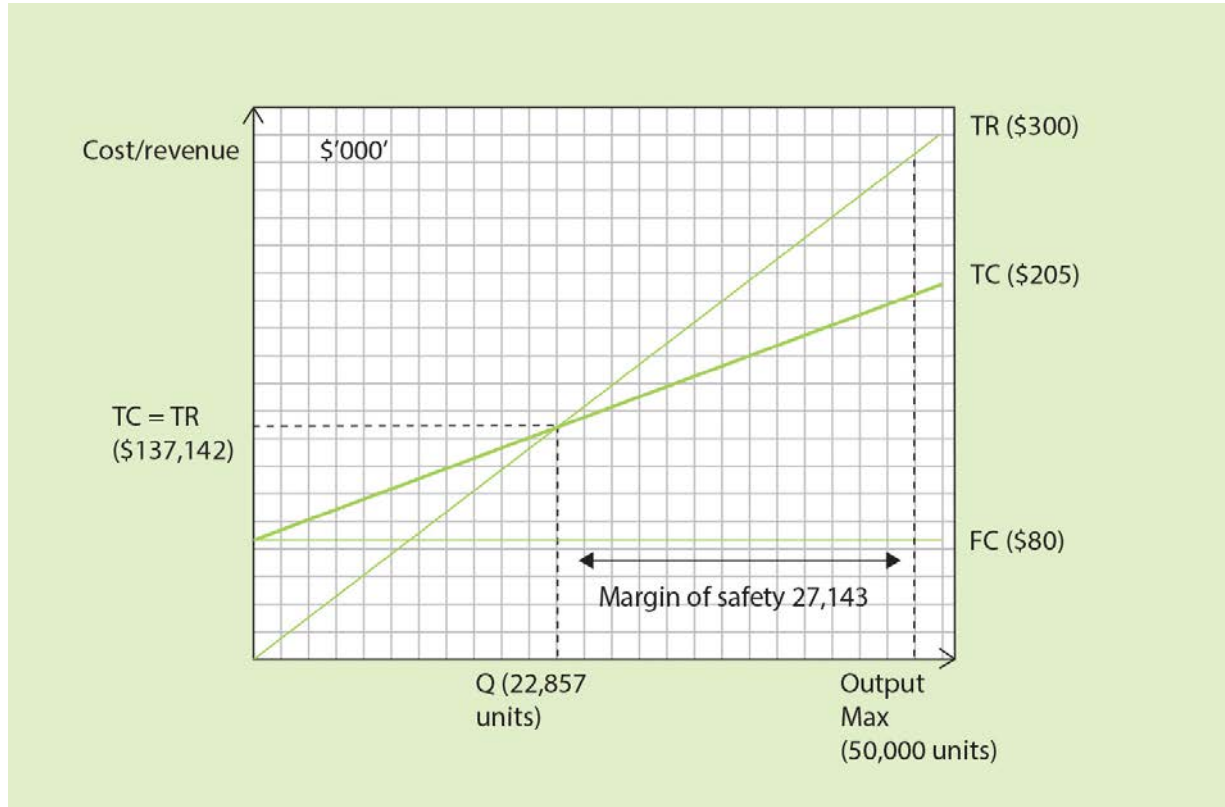


Saber Ltd profit:

		\$'000
Sales	40,000 x \$6	240
Direct costs	40,000 x \$3	120
Contribution	240 - 120	120
Fixed cost		60
Profit		60



Site B break-even chart:



Saber Ltd profit:

		\$'000
Sales	50,000 x \$6	300
Direct costs	50,000 x \$2.5	125
Contribution	300 - 125	175
Fixed cost		80
Profit		95

2. a. Break-even output:

Site A 20,000 units
Site B 22,875 units

b. Margin of safety:

Site A 20,000 units
Site B 27,143 units



c. Profit at maximum capacity:

Site A \$60,000

Site B \$95,000

3. Saber might choose:

- Site A because it has the lower break-even point and less risk
- Site B because it has the higher profit.

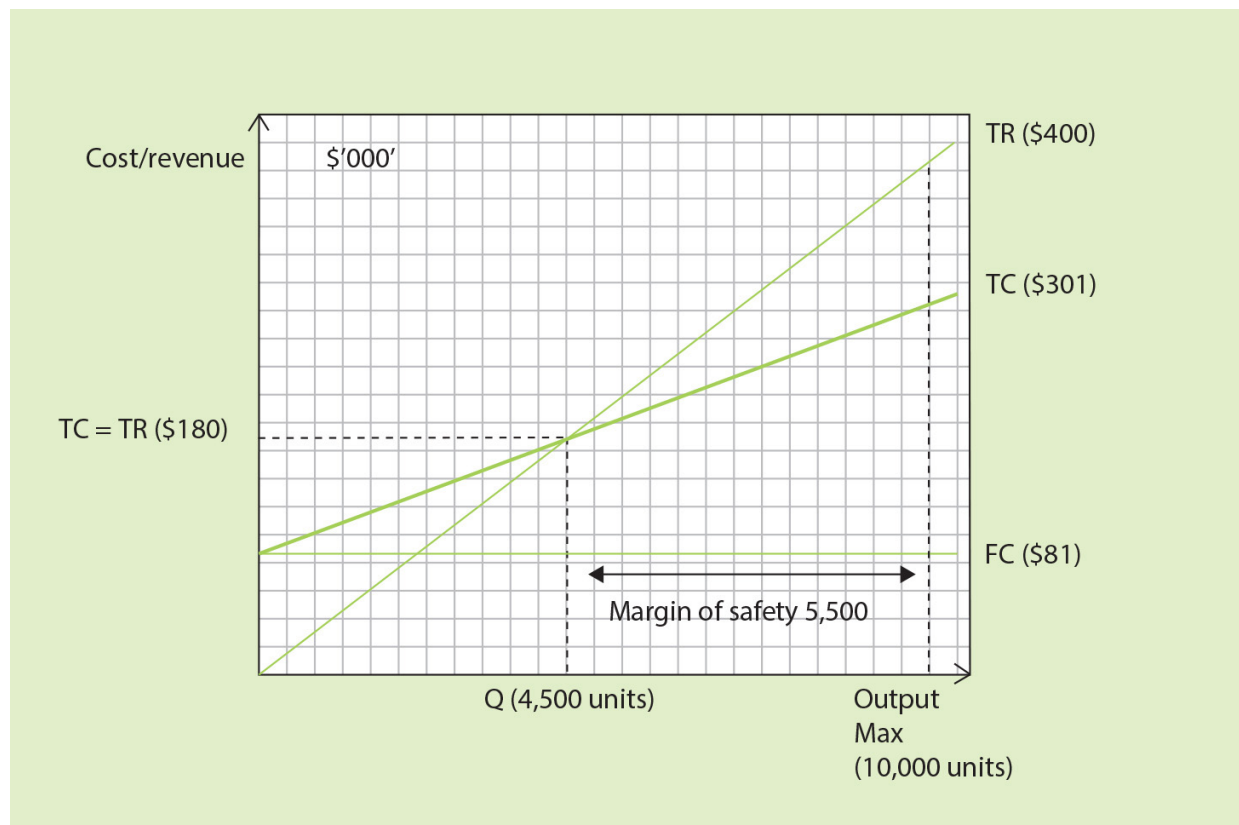
4. Other factors Saber might take into account when deciding on location include:

- Transport links
- Skilled work force
- Location of its suppliers.



Exam practice question

1. Break-even chart, Option 1:

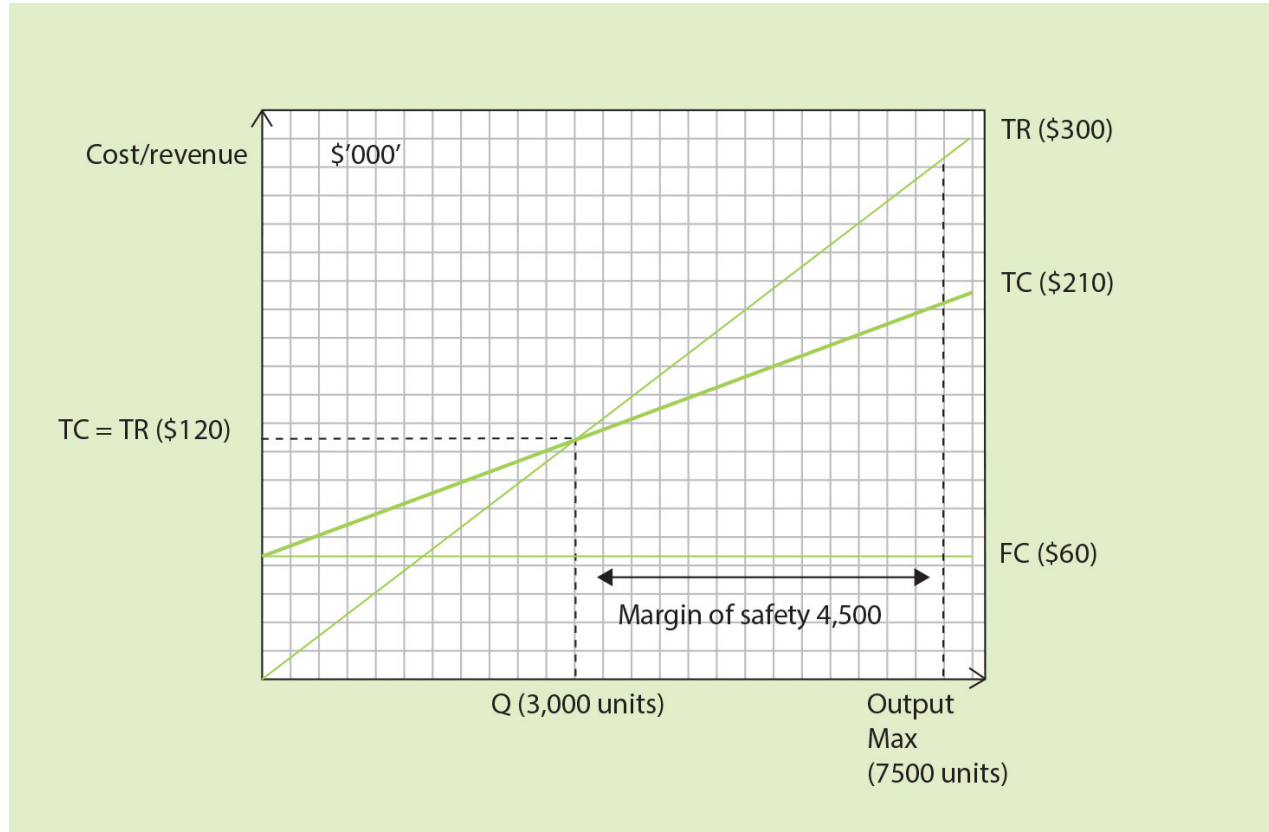


Windcheater profit:

		\$'000
Sales	10,000 x \$40	400
Direct costs	10,000 x \$22	220
Contribution	400 - 220	180
Fixed cost		81
Profit		99



Break-even chart, Option 2:



Windcheater profit:

		\$'000'
Sales	$7,500 \times \$40$	300
Direct costs	$7,500 \times \$20$	150
Contribution	$300 - 150 = 150$	150
Fixed cost		60
Profit		90



2. Windcheater might choose:

- Option 1 because it has the higher profit
- Option 2 because it has the lower break-even point and less risk.

3. Break-even analysis might be useful to a business like Winchester because it has the following strengths:

- Gives a graphical view of a decision, which is good for presentations
- Shows how costs, revenues and profits are affected by business activity
- Gives an assessment of risk through break-even and margin of safety.

It has the following weaknesses:

- Struggles to deal with semi-variable costs
- Assumes linear variable costs and revenues
- No allowance is made for non-monetary factors.

Key concept question

Business models like break-even might be useful to support business strategy because they:

- Give a graphical view of a decision, which is good for presentations
- Show how costs, revenues and profits are affected by business activity
- Give an assessment of risk through break-even and margin of safety
- Are an important planning tool
- Give an assessment of the financial consequences of resources
- Can be used as a guide to resource needs.

They have the following weaknesses:

- They are based on forecasted information where there is always some inaccuracy
- They assume the business has the resources to meet the variables in the model
- They struggle to deal with semi-variable costs
- They assume linear variable costs and revenues
- No allowance is made for non-monetary factors.



Section 3.4

Activity 3.4.1

1. Stakeholders that might be interested in Leroy's accounts include:
 - Banks and other creditors
 - Employees
 - Suppliers.
2. Leroy's accounts might have been useful to the following stakeholders because:
 - Banks and other creditors – repayment, risk of default, interest, need for new finance
 - Employees – job security, wages, funds to improve working conditions
 - Suppliers – repayment, risk of default, continued business.
3. a. Accounts can be prepared ethically by:
 - Employing an auditor with an ethical reputation
 - Ethical practices by management.b. FlyNow's accounts might have the following ethical issues:
 - Sale of assets to boost cash flow and profits
 - Cash from recent loan
 - Over-valuation of airplanes
 - Quality of work done on the airplanes increasing their value
 - Delayed payments to creditors.

Activity 3.4.2

1. a. Cosy Corner Retailers profit statement:

		\$
Sales	1500 x \$5	7500
Cost of goods sold	1500 x \$2	3000
Gross profit		4500

- b. Profit might be important for a business because it:
 - Is a reward to the owners/shareholders
 - Increases the value of the business if it is retained
 - Shows how successful the business is.



2. Cambridge Boxes profit statement 2014:

		\$
Sales	3500 x \$4	14000
Cost of goods sold	3500 x \$2	7000
Gross profit		7000

Activity 3.4.3

1. Rodrigues Traders profit and loss account missing values:

- V = 8000
- W = 5000
- X = 4000
- Y = 3200
- Z = 2000

2. Three stakeholders that would be interested in the profit figures are:

- Banks and other creditors
- Employees
- Shareholders.

3. The reasons these stakeholders might be interested in these accounts could be:

- Banks and other creditors – repayment, risk of default, interest
- Employees – job security, wages, funds to improve working conditions
- Shareholders – profit and dividends, continued business.



Activity 3.4.4

1. Karachi Traders profit and loss account 1:

	\$
Revenue (5000 units @ \$4.00)	20 000
Cost of goods sold (5000@ \$1.60 per unit)	8000
Gross profit	12 000
Overhead expenses	5000
Operating profit (profit before tax and interest)	7000
Finance costs (interest)	1000
Profit before tax	6000
Corporation tax @ 25%	1500
Profit for the year	4500
Dividends paid	1200
Retained profit	3300



2. Karachi Traders profit and loss account 2:

	\$
Revenue (6000 units @ \$3.00)	18 000
Cost of goods sold (6000@ \$0.90) per unit)	5400
Gross profit	12600
Overhead expenses	4500
Operating profit (profit before tax and interest)	8100
Finance costs (interest)	2000
Profit before tax	6100
Corporation tax @ 20%	1220
Profit for the year	4880
Dividends paid	1200
Retained profit	3680

Activity 3.4.5

These items appear in these sections of the balance sheet:

- Company's car – fixed asset
- Work in progress – current assets
- Four-year bank loan – long term liability
- Money owed to suppliers – current liabilities
- Issued share capital – shareholders' funds
- Dividends owed to shareholders – current liabilities
- Value of patents – fixed assets
- Payments due from customers – current liabilities
- Retained earnings – shareholders' funds
- Cash in bank – current assets.



Activity 3.4.6

- The following balance sheet terms can be defined as:
 - Trade receivables – the value of payments to be received from customers who have bought goods on credit
 - Inventories – stocks held by the business in the form of materials, work in progress and finished goods
 - Current assets – assets that are likely to be turned into cash before the next balance sheet date
 - Shareholders' equity – the value of shares issued to shareholders plus accumulated retained profit.
- Mauritius Telecom's balance sheet in 2012 and 2013 tells us its position has changed in the following ways. The value of:
 - Fixed assets has fallen
 - Stock has fallen
 - Debtors has increased
 - Cash has increased
 - Total asset has increased
 - Long-term liabilities has increased
 - Current liabilities has fallen
 - Shareholders' equity has increased.
- Accounting information might be useful to a potential investor because it provides information about:
 - Potential profits
 - Cash flow and debt
 - Value of the business and parts of the business.
 - Accounting information might be useful to creditors because it provides information about:
 - Potential repayment
 - Cash flow and debt
 - Value of assets for securing loans.

Activity 3.4.7

- 'Depreciation' is the decline in the estimated value of a fixed asset over time. Assets are items of monetary value that are owned by a business.
- Straight-line depreciation of the new lathe is: $(\$3\,000\,000 - \$200,000) / 10 = \$280\,000$.
- Declining balance depreciation of the new lathe is:
 - Year 1 $3\,000\,000 \times 0.12 = \$360\,000$
 - Year 2 $2\,640\,000 \times 0.12 = \$316\,000$



4. The advantages to Hardy Engineering of using declining balance depreciation might be:

- More accurate reflection of the way assets depreciate
- It allows for changes in technology and asset obsolescence
- Better matching of the cost of an asset with the revenues of an asset when it is new.

The disadvantages are:

- It is based on forecasted residual value and useful life
- It is more difficult to calculate than straight-line depreciation.

Exam practice question

1. Advantages that large supermarket chains might have over Carlos's shop might be:

- Buying food in bulk at lower unit costs
- Brand recognition
- Large-scale capital reduces unit costs.

2. a. Carlos's profit and loss account for 2010:

		\$
Sales	80 000 x 12	960 000
Cost of goods sold	960 000 x 0.75	720 000
Gross profit		240 000
Indirect cost		20 000
Net profits		220 000

b. Annual depreciation expense of the van is: $(\$40\,000 - \$8\,000) / 4 = \$8\,000$

c. The usefulness of Carlos's profit and loss account to different stakeholders might be:

- Banks and other creditors – repayment, risk of default, interest
- Employees – Job security, wages, funds to improve working conditions
- Shareholders – profit and dividends, continued business.



Key concept question

Ethics might be important in producing a set of accounts in terms of fair and accurate view of a business's:

- Profits and asset value for shareholders
- Cash flow and asset value for lenders and creditors
- Cash flow and profits for employees
- Profits for the government
- Profits and asset value for potential investors
- Cash flow and asset value for suppliers
- Profits, cash flow and asset value for the local community.

Without an ethically produced set of accounts, stakeholders may be misled on the business's financial position and may make the wrong decisions because of this.



Section 3.5

Activity 3.5.1

- Capital employed is (non-current assets + current assets) - current liabilities or non-current liabilities + shareholders' equity.
 - Net profit margin is the percentage of net profit earned on each \$1 of sales revenue.

- Samsung's gross profit:

2012 SKW 201 104 - 126 652 = 74 452

2013 SKW 228 693 - 137 696 = 90 997

- Samsung's ratios:

	Gross profit margin	Net profit margin	ROCE	Current ratio	Acid test ratio
2012	37.02	14.88	22.30	1.86	1.48
2013	39.79	16.78	23.57	2.16	1.79

- Samsung's performance 2012–13:

- Gross profit margin has improved
- Net profit margin has improved
- ROCE has improved
- Current ratio shows the business is more liquid
- Acid ratio shows the business is more liquid.

- Strategies Samsung might use to improve gross profit margin and net profit margin include:

- Increase sales revenue by increasing expenditure on promotion and advertising. The problem with this is that indirect costs rise on promotional spending.
- Increase the price of goods to increase the profit margin on each unit sold. The problem with this is that revenue might fall if the quantity sold decreases.
- Reduce direct costs by cutting spending on raw materials. The problem with this might be reduced product quality.
- Indirect costs could be reduced by cutting administration costs. The problem with this is that the business does not run as efficiently.



Activity 3.5.2

- Current ratio: $98\,475 / 176\,444 = 0.56$
 - Acid test ratio: $83\,007 / 176\,444 = 0.47$
- Air Mauritius's liquidity position might be described as weak because the acid test ratio (less than 1) and current ratio (less than 1.5) suggest the business does not have the current or liquid assets to cover its current liabilities.
- Previous years' data might be useful to Mauritius stakeholders because it can:
 - Establish trends
 - Say whether the business's financial position is improving or deteriorating
 - See whether a business strategy is working
 - Promote successful performance if the data is improving.

The weakness of using previous years' data is:

- Enough years need to be considered
- Performance needs to be judged against other businesses in the same industry
- No account is taken of changes in the business environment
- No account is taken of non-monetary factors.

Activity 3.5.3

- Gross and net profit margins for Ahmed Builders and Flash Builders:

	Ahmed	Flash
Gross profit (2014)	28.57%	25%
Net profit (2014)	5.71%	10%

- The gross and net profit margin ratios for Ahmed and Flash suggest:
 - Ahmed has a higher gross profit margin and performs better on this basis
 - Flash has a higher net profit margin and performs better on this basis.
- Two ways in which Ahmed might attempt to increase the net profit margin ratio are:
 - Increase sales revenue by increasing the quality of shop fittings. The problem with this might be that direct costs rise on materials and labour
 - Reduce indirect costs by cutting spending on administration. The problem with this might be that the organisation does not operate as efficiently.



4. The current and acid test ratios for Ahmed and Flash are:

	Ahmed	Flash
Current ratio	2.22	1.25
Acid test ratio	1.11	0.75

5. The current and acid test ratios for Ahmed and Flash suggest the following:

- Ahmed has a relatively secure current ratio (over 2) and acid test ratio (over 1), which implies a relatively safe liquidity position
- Flash has a relatively insecure current ratio (below 1.5) and acid test ratio (below 1), which implies a relatively insecure liquidity position.

6. Two ways in which Flash might attempt to improve its liquidity position might be:

- Take a long-term loan that brings more cash into the business and increases liquidity. The problem is the loan needs to be repaid and interest has to be paid on the loan.
- Sell assets (such as buildings) to generate cash from sales. The problem is assets sold might reduce Flash's ability to generate future revenue.

Exam practice question

- a. Current assets are assets that are likely to be turned into cash before the next balance sheet date.
 - b. Capital employed is (non-current assets + current assets) - current liabilities or non-current liabilities + shareholders' equity.
- One ratio that could measure Karachi Paper's liquidity is the current ratio. This measures the value of current assets the business has to pay its current liabilities.
- Ratios (%) for ROCE, gross profit margin, net profit margin for Karachi Paper:

	31/12/14	31/12/13
ROCE	11.7	12.7
Gross profit margin	70	69.7
Net profit margin	8.75	10

- Karachi Paper's performance over the two years on the basis of the ratios calculated can be summarised as:
 - Fall in ROCE shows poorer performance



- Small rise in gross profit margin is a minor improvement in performance
- Rise in net profit margin shows an improvement in performance.

The weakness of judging performance on the basis of these ratios is that it is:

- Only based on three ratios
- Only based on two years of data
- Not compared with other firms in the same industry.

Key concept question

The importance of financial analysis in developing business strategy might be:

- It provides an assessment of the current financial position
- It gives a guide to a business's strengths and weaknesses, and could be part of a SWOT analysis and developing future strategy
- Trends in financial data can be used to see whether a strategy is working or not
- Comparing financial data between a firm and its competitors shows the relative performance of the firm's strategy.

The weaknesses of financial analysis for business strategy might be:

- Not making allowances for non-monetary factors
- Not making allowances for changes in the business environment
- Looking at the business in the present and past and not considering the future.



Section 3.6

Activity 3.6.1

1.
 - a. Debtors days: $\$23\,422\text{m} / \$227\,969\text{m} \times 365 = 37$ days
 - b. Creditor days: $\$30\,282\text{m} / 160\,000\text{m} \times 365 = 69$ days
 - c. Stock turnover: $160\,849\text{m} / 22\,097\text{m} = 7.27$
 - d. Gearing: $34\,574\text{m} / 177\,555\text{m} = 19.47\%$

2. Comments on Total Oil's efficiency and gearing ratios:
 - Debtor days – it takes on average a debtor 37 days to pay
 - Creditor days – the business pays its creditors in 69 days on average
 - Stock turnover – the business sells its stock 7.27 times on average in a year
 - Gearing – 19.47% of the firm's long-term finance is borrowed.

3. A strategy Total Oil might use to improve efficiency could be to:
 - Increase stock turnover by reducing the amount of stock the business holds. The problem with this is that it might lead to stock out costs.
 - Cut the time period it allows debtors to have before they pay. The problem with this is it might lead to a fall in sales as some customers look for suppliers with better credit terms.

A strategy Total Oil might use to improve its gearing could be to:

 - Pay back some long-term loans by selling new shares. The problem with this is that selling shares might reduce the control of existing shareholders
 - Sell assets to pay off some long-term loans. The problem with this is that selling assets might reduce the business's ability to generate profits in the future.

Activity 3.6.2

1. Efficiency and gearing ratios for Union Market Wholesale and RFL Wholesale:

	Debtor days (days)	Creditor days (days)	Inventory turnover	Gearing (%)
Union Market	98	71	7.95	31.74
RFL	83	70	5	50

2. Comments on Union Market Wholesale and RFL Wholesale's efficiency and gearing:
 - RFL gets payment from debtors more quickly than Union Market Wholesale



- RFL pays creditors more slowly than Union Market Wholesale
- Union Market's stock turnover is faster than RFL
- Union Market's gearing ratio is lower than RFL.

3. The advantages to RFL of raising finance by selling stock include:

- Repayment is not needed
- No loss of control
- No interest payment.

The disadvantages to RFL of raising finance by selling stock:

- Stock out costs
- Selling \$73m of stock could be difficult to do quickly.

The advantages to RFL of raising finance by taking a bank loan:

- No loss of control
- Planned repayment and interest
- Can be raised quickly.

The disadvantages to RFL of raising finance by taking a bank loan:

- Interest payments
- Repayment
- May need to be secured.

Exam practice question

- a. Revenue is the income business receives from sales calculated as selling price x unit sold.
 - b. Inventories are the stock a business holds as raw materials, components, work in progress and finished goods.
- Karachi traders could measure efficiency by using day's sale in stock ($\text{stock} / \text{cost of goods sold} \times 365$). This tells the business how quickly stock is sold.
- The values for the following ratios for Karachi Paper in 2013 and 2014 are:

	Debtor days (days)	Creditor days (days)	Inventory turnover	Gearing (%)
2013	77	137	2.78	46.15
2014	73	164	2.06	50

- On the basis of the ratios Karachi Papers might want to introduce strategies to deal with the following things:



- Debtor days is falling so the business is collecting from debtors more quickly. The problem with this is it might be losing sales because of more restrictive credit terms.
- Creditor days is rising, which means the business is paying more slowly so it keeps cash for longer. The problem with this is that it may incur penalty interest payments.
- Inventory turnover is falling, which means stock is being held for more time in the business and the firm incurs more holding costs. The benefit of holding more stock is that stock out costs are reduced
- Gearing ratio has increased which means the business may have more interest to pay and greater repayments. It may, however, have had more funds for investment.

Key concept question

Change might affect the way a business measures efficiency in the following ways:

- Ratios that are affected by a particular change decision should be used. If the change decision is to improve cash flow then reducing days' sales in debtors could be used.
- Ratio measures that show trends over time should be used to demonstrate whether a change decision is delivering effective change. Is the days' sales in debtor ratio falling to show cash flow might be improving?
- Non-monetary factors that are used to measure efficiency during a time of change, such as the views of managers and customers.

Culture might affect the way a business measures efficiency in the following ways:

- In a power culture ratios will be important for measuring the efficiency of workers
- In a task culture efficiency ratios can be used to measure the performance of different teams
- In a person culture individuals will look to measure their own efficiency.



Section 3.7

Activity 3.7.1

Research task.

Activity 3.7.2

1. Reasons why Australian businesses might be operating with negative cash flow despite being profitable include:
 - Slow customer payments
 - Lack of access to credit.

2. Australian businesses might be affected in the following ways:
 - a. If credit and other forms of finance become 'more scarce' it could lead to cash flow problems
 - b. If customers delay payment then this will lead to cash flow problems.

Activity 3.7.3

- One more cash payment received could be the sale of an asset
- One more cash payment paid could be administration.



Activity 3.7.4

Revised cash flow from Keon:

	All figures in \$000	Jan.	Feb.	Mar.	Apr.
Cash inflows					
	Owner's capital injection	6	0	0	0
	Cash sales	3	4	6	7
	Payments by debtors	0	2	2	3
	Total cash in	9	6	8	10
Cash outflows					
	Lease	8	0	0	0
	Rent	1	1	1	1
	Materials	0.5	1	3	2.5
	Labour	1	2	3	3
	Other costs	0.5	1	0.5	2.5
	Total cash out	11	5	7.5	9
Opening balance		0	(2)	(1)	(0.5)
Net cash flow	Net monthly cash flow	(2)	1	0.5	1.0
Closing balance		(2)	(1)	(0.5)	0.5



Activity 3.7.5

1. Completed cash flow forecast:

- $X = -1.5$; $Y = 10.5$; $Z = 1.5$.

2. Problems for Suyuri and Koreda in drawing up the cash flow forecast might be forecasting:

- Cash and credit sales
- Debtor payments.

3. New cash flow forecast:

	All figures in \$000	April	May	June	July
Cash inflows					
	Owner's capital injection	28	0	0	0
	Cash sales	4.8	6.4	9.6	7.2
	Payments by debtors	0	2	2	3
	Total cash in	32.8	8.4	11.6	10.2
Cash outflows					
	Lease	18	0	0	0
	Rent	2	2	2	2
	Clothes purchases	4.8	3.2	2.4	3.2
	Labour	3	3	4	3
	Other costs	6.5	2	2.5	1.5
	Total cash out	34.3	10.2	10.9	9.7
Opening balance		0	(1.5)	(3.3)	(2.6)
Net cash flow	Net monthly cash flow	-1.5	(1.8)	0.7	0.5
Closing balance		(1.5)	(3.3)	(2.6)	(2.1)



4. Cash-flow forecasts might increase the chances of business success by providing managers with knowledge of how to manage cash flow effectively through giving them forecasted information on:

- Value of cash inflows and outflows
- Timings of cash inflows and outflows
- Times when extra finance needs to be arranged with lenders and other sources
- Plans that need to be made to cut outflows and increase inflows.

The problems with cash-flow forecasts is the difficulty of predicting:

- Sales
- Debtor payments
- Costs
- Changes in the business environment.

Activity 3.7.6

The cash flow of a taxi company might be affected by the following events:

- An increase in oil prices may increase the costs and cash outflow on diesel and petrol
- As unemployment rises more people may become taxi drivers and this forces revenues down and fares fall
- As train fares fall more people might take the train and this reduces the demand for taxi journeys, which reduces their revenues.

Activity 3.7.7

1. Two reasons why it might be difficult to forecast net cash flows for a gold mining business might be:

- The fluctuating gold price affects cash inflows
- Difficulty in forecasting operating costs of a mine.

2. Two reasons why the annual net cash of a gold mine will not be the same as annual profit might be:

- Profit does not account for the initial cash outflow and cash flow does
- Profits are made when goods are sold to the buyer and cash inflows occur when goods are paid for.

3. By cutting back on capital expenditure cash flow might improve because less:

- Cash flows out of the business initially
- Cash is needed to maintain capital (maintenance)
- Cash is needed to finance interest payments.

The disadvantages of cutting back on capital expenditure might be:



- The capacity to produce gold falls, which reduces cash inflows
- Lower quality capital might incur higher maintenance costs and cash outflows.

Activity 3.7.8

1. 'Working capital' is the day-to-day finance needed by a firm to carry out its operations. It is calculated as current assets - current liabilities.
2. Mr Gupta might find it difficult to control its working capital because the recession:
 - Reduces cash inflows from sales
 - Creditors want to be paid more quickly
 - Debtors take longer to pay.
3. Mr Gupta could try to improve cash flow by:
 - Increasing sales revenue. The problem with this approach is increasing sales in a recession
 - Cutting labour costs. The problem with this is the effect it might have on motivation
 - Paying creditors more slowly. The problem with this is the relationship with suppliers
 - Reducing the debtor period. The problem with this is trying to get customers to pay more quickly in a recession.



Exam practice question

1. Liquidity is the ability of a firm to pay its short-term debts.

2. Cash-flow forecast for Coffee Call:

	All figures in \$000	Jan	Feb	Mar	Apr	May	Jun
Cash inflows							
	Cash sales	20	20	20	40	40	40
	Loan inflow		20				
	Total cash in	20	40	20	40	40	40
Cash outflows							
	Materials	10	10	10	20	20	20
	Electricity and gas		2				
	Staff wages	2	2	2	3	3	3
	Drawings			10			
	Marketing	0.5	0.5	0.5	0.5	0.5	0.5
	Fitting tables			20			
	Total cash out	12.5	14.5	42.5	23.5	23.5	23.5
Opening balance		7	14.5	40	17.5	34	40.5
Net cash flow	Net monthly cash flow	7.5	25.5	(22.5)	16.5	16.5	16.5
Closing balance		14.5	40	17.5	34	40.5	57

3. The advantages of Coffee Call using the venture capitalist might be:

- Access to finance to fund expansion
- No repayment
- No interest cost
- Expertise to help the business.

The disadvantages might be:

- Some loss of control over decision making
- Profit is split with venture capitalist
- Some ownership is given up.



Key concept questions

The importance of change in managing cash flow might be how an organisation manages a change in strategy in terms of:

- Financing new investment
- Financing a change strategy
- Cash inflows resulting from change in strategy
- Cash outflows resulting from change in strategy

The importance of ethics in the management of cash flow might be:

- Sourcing finance from ethical places
- Managing cash inflows to fairly impact on different stakeholders
- Managing cash outflows to fairly impact on different stakeholders.



Section 3.8

Activity 3.8.1

One reason why the future net cash flow forecasts of each of the following projects might be uncertain:

- Future sales of the new cars.
- The forecasted cost savings from the new system.
- The accuracy of the market research.
- How many car drivers will use the toll road.
- How much the power station will cost to build.

Activity 3.8.2

- 'Investment appraisal' is evaluating the profitability or desirability of an investment project.
- The payback periods for Project X and Project Y:

Year	Project X	Cumulative cash flow	Project Y	Cumulative cash flow
0	(\$50 000)	(\$50 000)	(\$80 000)	(\$80 000)
1	\$25 000	(\$25 000)	\$45 000	(\$35 000)
2	\$20 000	(\$5 000)	\$35 000	0
3	\$20 000	\$15 000	\$17 000	\$17 000
4	\$15 000	\$30 000	\$15 000	\$32 000
5	\$10 000	\$40 000	–	–

- Project X – $(\$5,000 / \$20,000) \times 12 = 3$ months and 2 years
- Project Y – 2 years.



3. ARR for project X and Y

- Project X: $(\$25\,000 + \$20\,000 + \$20\,000 + \$15\,000 + \$10\,000 - \$50,000) / 5 = \$8,000$
 $\$8,000 / 50,000 \times 100 = 16\%$.
- Project Y: $(\$45\,000 + \$35\,000 + \$17\,000 + \$15\,000 - 80,000) / 4 = \$8,000$
 $\$8,000 / \$80,000 \times 100 = 10\%$.

4. The financial factors that might affect Ashton Textiles' choice of project could be:

- Project Y pays back more quickly than X
- Project X has a higher ARR than project Y
- Project X has a lower initial investment than project Y.

The non-financial factors might be:

- Ashton's good relationship with the supplier of machine Y
- Machine X's mixed reviews on reliability
- Machine X is imported and affected by the exchange rate
- Project Y is supplied by a local firm.

Activity 3.8.3

1. 'Net present value' is the use of discounted cash flows to assess an investment project.
2. Net present value of the new gym:

Year	Net cash flows (\$)	Discount factor @ 14%	Present value
0	(850 000)	1	(850,000)
1	240 000	0.88	211,200
2	300 000	0.76	228,000
3	350 000	0.67	234,500
4	350 000	0.59	206,500
		NPV	30,200

3. If the discount interest rate increased, the net present value would fall as the cash flows are discounted at a higher rate.



4. On the basis of financial factors, the decision to open the new gym would be affected by:

- ARR of above 10% is acceptable
- Payback of 3 years is acceptable
- NPV is positive.

The non-financial factors might be:

- High profile city location
- Threat of a rise in interest rates
- Strongly growing market.

Activity 3.8.4

1. 'Payback' is the time it takes for the initial investment of a project to be repaid.

2. Payback and ARR for location A and B:

Year	Location A	Cumulative cash flow	Location B	Cumulative cash flow
0	(\$12 000)	(\$12 000)	(\$12 000)	(\$12 000)
1	\$3000	(\$9000)	\$6000	(\$6000)
2	\$4000	(\$5000)	\$5000	(\$1000)
3	\$5000	0	\$3000	\$2000
4	\$6000	\$6000	\$2000	\$4000
5	\$5000	\$11 000	\$5000	\$9000

- Payback location A – 3 years
- Payback location B – $(\$1,000 / \$3,000) \times 12 = 4$ months and 2 years
- ARR location A – $(\$3000 + \$4000 + \$5000 + \$6000 + \$5000 - \$12,000) / 5 = \$2,200/12,000 \times 100 = 18.3\%$
- ARR location B – $(\$6000 + \$5000 + \$3000 + \$2000 + \$5000 - \$12,000) / 5 = \$1,800/12,000 \times 100 = 15\%$.

3. On the basis of the ARR location A is more favourable and location B has the more favourable payback.



4. The NPV of location A and location B:

Year	Location A	DF 10%	Present value	Location B	DF 10%	Present value
0	(\$12 000)	1	(\$12,000)	(\$12 000)	1	(\$12 000)
1	\$3000	0.91	\$2730	\$6000	0.91	\$5460
2	\$4000	0.83	\$3320	\$5000	0.83	\$4150
3	\$5000	0.75	\$3750	\$3000	0.75	\$2250
4	\$6000	0.68	\$4080	\$2000	0.68	\$1360
5	\$5000	0.62	\$3100	\$5000	0.62	\$3100
		NPV	\$4980		NPV	\$4320

5. Location A should be chosen because it has the highest NPV.

6. Problems of using the NPV method of deciding between different investment projects might include:

- Interest rates change
- Inaccurate forecasts of net cash flows
- Inaccurate forecast of the length of the project.

Exam practice questions

1. Two difficulties Asia Print might have forecasting future sales include:

- The selling price of its product might change
- The units sold might be different to the forecast.



2. The payback of the ARR and payback period of project Y and Z:

Year	Project Y \$m	Cumulative cash flow	Project Z \$m	Cumulative cash flow
0	(20)	(20)	(12)	(12)
1	$(\$1.25 - \$0.5) \times 8 - 1 = 5$	(15)	$(\$1.25 - \$0.5) \times 6 - 0.5 = 4$	(8)
2	$(\$1.25 - \$0.5) \times 8 - 1 = 5$	(10)	$(\$1.25 - \$0.5) \times 6 - 0.5 = 4$	(4)
3	$(\$1.25 - \$0.5) \times 8 - 1 = 5$	(5)	$(\$1.25 - \$0.5) \times 6 - 0.5 = 4$	0
4	$(\$1.25 - \$0.5) \times 8 - 1 = 5$	0	$(\$1.25 - \$0.5) \times 6 - 0.5 + 0.5 = 4.5$	4.5
5	$(\$1.25 - \$0.5) \times 8 - 1 + 1 = 6$	4		

- Project Y: four-year payback
- Project Z: three-year payback
- Project Y: ARR $(5 + 5 + 5 + 5 + 6 - 20 / 5) / 20 = 6\%$
- Project Z: ARR $(4 + 4 + 4 + 4.5 - 12 / 4) / 12 = 9.4\%$

3. On the basis of financial factors:

- Project Z has a shorter payback period than project Y
- Project Z has a higher ARR than project Y.

On the basis of non-financial factors:

- Project Y: automatic, internet links, six redundancies, needs highly trained operatives
- Project Z: semi-automatic, limited facilities, reliable, three redundancies, complaints from local residents.



Key concept question

Investment appraisal plays the following role in business strategy and innovation:

- Guides future decisions on significant investment and innovation
- Provides analysis of future cash inflows and outflows of an investment and innovation decision
- Gives an assessment of the financial strengths and weaknesses of an investment and innovation decision
- Allows organisations to make an assessment of risk associated with strategy and innovation
- Can be used in conjunction with non-monetary factors associated with innovation and strategy.

Its weaknesses are:

- Market conditions change over time
- Inaccurate forecasted future cash inflows and outflows
- Difficult to balance the importance of monetary and non-monetary factors.



Section 3.9

Activity 3.9.1

1. A 'budget' is a detailed financial plan for the future use of resources by an organisation.
2. Reasons why budgeting is important to Kinibali Timber Ltd include:
 - Being a vital part of the planning process
 - It helps to make sure resources are used effectively
 - It helps to set targets.

3. Variances for Kinibali Timber Ltd:

\$'000	Budgeted figures	Actual figures	Variances
Sales revenue	660	700	40 (F)
Direct labour	150	180	30 (A)
Direct materials	120	170	50 (A)
Fixed costs	60	50	10 (F)
Profit	330	300	30 (A)

4. Variances might be useful to managers because they can:
 - Show the performance of different parts of the organisation against budgeted objectives
 - Motivate workers to achieve budgeted objectives.
5. Kinibali Timber Ltd's problems seem to be controlling its:
 - Direct labour cost
 - Direct material cost.



Exam practice question

1. 'Variance' is the difference between an actual figure and a budgeted figure.
2. A manufacturing business sets budgets for sales and costs by:
 - Setting the sales budget based on past data and market research
 - Setting direct cost budgets based on sales activity levels.
3. Problems of trying to budget for the cost of raw materials include:
 - The cost is affected by activity levels that may be unpredictable
 - The market price of raw materials might be volatile.

4. Completed table:

	Budgeted figures (\$000)	Actual figures (\$000)	Variances
Sales revenue	165	150	15(A)
Cost of materials	80	70	10(F)
Labour costs	22	23	1(A)
Gross profit	63	57	6(A)
Overheads	40	43	3(A)
Net profit	23	14	9(A)

5. The performance of Oasis Cookers is relatively poor in terms of adverse:
 - Sales revenue
 - Labour cost
 - Overheads
 - Gross profit
 - Net profit

The performance area which is relatively good in terms of favourable variance is:

- Cost of materials.



Key concept question

Budgeting can be used to support business strategy through:

- Guiding strategic decision-making
- Business planning
- Setting objectives
- Allocating resources efficiently
- Giving managers responsibility
- Assessing performance

The problems of applying budgets might be:

- Forecasting future use of resources
- Interpreting why actual figures might be different to budgeted figures.



Section 4.1

Activity 4.1.1

1. 'Consumer service' is the intangible provision of an activity to end users (consumers).
2. Small hotels need to 'make booking seamless' to make the standard of customer service as high as possible when booking as it is such an important part of the product a hotel offers.
3. Social media can be important in promoting small hotels because it increases the exposure of their brands to consumers and potentially increases booking rates.
4. The marketing of consumer goods and services have the following similarities:
 - Consumer satisfaction is important
 - Product/service needs to meet needs and desires of the consumer
 - The price needs to be right
 - Promotion is important
 - Distribution is important.

The differences are that services:

- Are consumed immediately
- Cannot be returned if there is dissatisfaction
- Cannot be compared as easily by the consumer
- Are reliant on the performance of people to generate consumer satisfaction.

Activity 4.1.2

1. 'Market-oriented' is an outward-looking approach basing product decisions on consumer demand.
2. The Classic Watch Company seems to have a product-orientated approach to marketing because it focuses on producing a simple, robust product rather than what the consumer wants.
3. Classic Watch Company might have problems using the product-oriented approach because it might fail to:
 - Take into account the wants of the consumer
 - Keep up with changes in consumer tastes.
4. Two changes the Classic Watch Company could make to become more market oriented are:
 - Conducting and using market research on consumer behaviour
 - Design its watches based on the market research.



Activity 4.1.3

1. Market share of Company X: $\$4\,500\,000 / \$16\,200\,000 = 27.8\%$.
2. Benefits for Company X of being market leader might be:
 - Retailers are keen to stock its brands
 - It is an effective selling point in promotion
 - Higher sales and profits.

Activity 4.1.4

1. Equation for calculating Tesco Lotus's market share in Thailand:
Tesco Lotus total sales / total supermarket sales in Thailand x 100.
2. Tesco Lotus's sales 2013: $0.15 \times \$25\text{B} = \3.75B
3. Tesco Lotus's sales 2014: $\$5.75\text{B} / \$35\text{B} = 16\%$
4. Advantages Tesco Lotus might gain from being market leader include:
 - It is an effective selling point in promotion
 - Higher sales and profits
 - Buying power with suppliers.

Activity 4.1.5

1. 'Consumer product' is a good sold to the final consumer for their consumption.
2. Tax and regulation in response to obesity might affect the demand for PepsiCo's soft drinks by:
 - Tax raising the price and reducing demand
 - Regulation making the product less appealing (health warning on packaging) and reducing demand
 - Changing the make-up of the drinks and adversely affecting taste.
3. PepsiCo might develop a new product to deal with rising health concerns through:
 - Market research
 - Changing the make-up of the drinks
 - Promoting the drinks in a health-conscious way.
4. The advantages of PepsiCo changing its marketing strategy in response to changing consumer preferences include:



- Potential sales and market share rise
- An opportunity to increase prices or not cut prices
- Positive publicity.

The disadvantages might be:

- Cost of changing the product
- Consumers do not like the new product
- Accurately forecasting changes in consumer preferences.

Exam practice question

1. A 'market segment' is a subgroup of a market made up of consumers with similar characteristics, tastes and preferences.
2. Samsung could calculate its share of the 'low price' market using this formula:
 - $\text{Samsung's sales in the low price market} / \text{total sales in the low price market} \times 100.$
3. Samsung might have launched the 'fitness-focused Galaxy S5 Sport' for the following reasons:
 - Growth market with new fitness apps
 - In response to similar products from the competition
 - To spread sales across different market segments.
4. The advantages of Samsung's decision to target the 'low price' market segment might be:
 - Attractiveness to consumers on lower incomes
 - Access to markets in developing countries
 - Sells when the economy is in recession.

The disadvantages might be:

- Lower profit margins
- Unattractive to high-income consumers
- Not as successful when incomes are rising in an economy.



Key concept question

Ethics might influence the way businesses target consumers in different markets in the following ways:

- Young children (toys)
- Low-income consumers (payday loans)
- Pensioners (healthcare products)
- Teenagers (alcohol and cigarettes).

Culture might influence the way businesses target consumers in different markets in the following ways:

- Materialistic (premium brands)
- Environmental (renewable energy)
- Intellectual (news media)
- Leisure (sports goods).



Section 4.2

Activity 4.2.1

1. Elements of the marketing mix that do not fit with each product:
 - Mix A – radio advertising
 - Mix B – sold on the internet
 - Mix C – low-priced offers to families
 - Mix D – high-priced strategy.
2. Suggestions for changes in the marketing mix for two products include:
 - Mix A – advertise the product in a high quality motoring magazine, on a motoring cable TV show, at a motor show
 - Mix B – distribute the product through supermarket retailers, low-priced furniture retailers, DIY retailers.

Activity 4.2.2

1. a. A 'niche market' is a small and specific part of a larger market.
b. A 'market segment' is a subgroup of a market made up of consumers with similar characteristics, tastes and preferences.
2. TI could set the price and product elements of the marketing mix to reach the ultra-premium cycle market segments by:
 - Setting a high (premium) price
 - Making very high-quality bicycles.
3. One problem TI might face entering the ultra-premium cycle market would be established competition.
4. Reasons why TI markets products in different market segments include:
 - Increasing revenue and profit opportunities
 - Spreading risk across different markets.



Activity 4.2.3

1. Market segmentation is identifying different segments within a market and targeting different products or services to them.
2. Market research has allowed the tourist market in Hong Kong to be segmented by:
 - Age
 - Income
 - Leisure and business customers.
3. The benefits of the Hong Kong travel company targeting different market segments might be:
 - Meeting the needs of different consumers precisely
 - Increasing revenue and profit opportunities
 - Spreading risk across different markets.

The limitations might be:

- The cost of separating markets
- Economies of scale
- Some markets have small numbers of consumers.

Activity 4.2.4

1. a. A 'target market' is the market segment a business sets its marketing mix to try to attract.
b. A 'niche market' is a small and specific part of a larger market.
2. Product positioning is the way a business communicates with its target market the characteristics of the product that will attract them. This might be targeting families with:
 - A membership scheme
 - Family-based classes.
3. Market segmentation has the following benefits to Le Sportif:
 - Meets the needs of target consumers precisely
 - Cost-effective marketing expenditure
 - Gaps in the market can be identified
 - Allows Le Sportif as a small business to compete against larger businesses.
4. The advantages of Le Sportif's method of differentiation might be:
 - Different target market to the competition



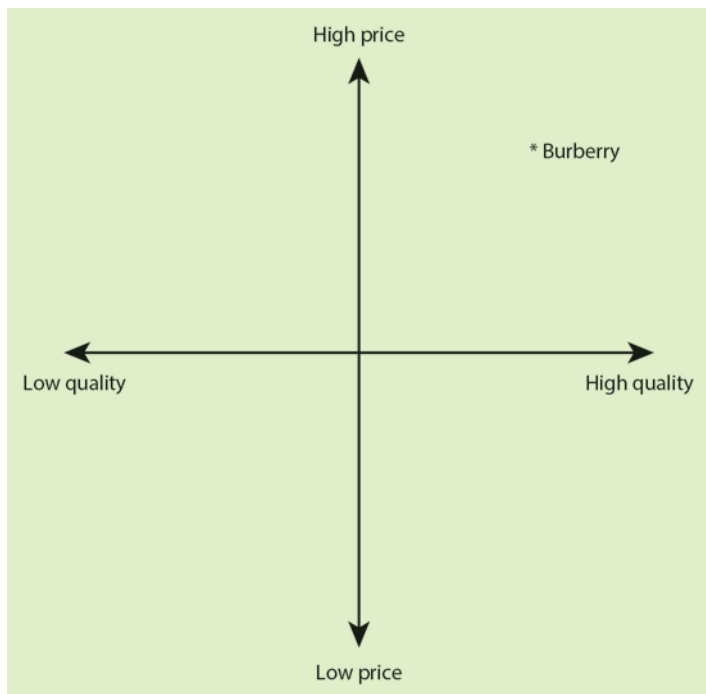
- Stable long-term market
- Children can become adult members in the long term
- Multiple members per family to generate revenue.

The disadvantages might be:

- Children do not generate much revenue
- Families might put off other types of customer
- If a family stops a membership a number of customers are lost.

Exam practice question

- a. Unique selling point (USP) is the factor that differentiates a product from its competitors.
 - b. A target market is the market segment a business sets its marketing mix to try to attract.
2. Elements of Burberry's marketing mix are:
 - High-quality products
 - High-priced products
 - Exclusive retail distribution.
3. Burberry product positioning map for female clothing:





4. The advantages of the way Burberry differentiates its products might be:

- High revenue streams from high-income consumers
- Clear identity in the market
- Growing market if incomes are rising
- Strong brand loyalty.

The disadvantages might be:

- Limited number of high-income consumers
- Declining market if income falls
- High costs of production and marketing
- Cheaper grey (fake) market alternatives.

Key concept question

Globalisation may bring the following changes to a business's marketing planning:

- Rise in competition from overseas
- Potential markets overseas
- Ability to produce more cheaply abroad and reduce costs and prices
- Cultural differences in the way products are marketed
- Language differences and marketing products
- Impact of income differences on the way products are priced
- Distribution in international markets.



Section 4.3

Activity 4.3.1

1. 'Seasonal variation' is the difference in value between the monthly data and the moving trend data.
2. Values in the table:
 - $W = 29.375$
 - $X = 0.5$
 - $Y = -3.625$
 - $Z = 7.875$
3. The line of best fit and other information can be used to give a sales forecast for 2016 in the following ways:
 - The line of best fit projects the general trend in the data going forward to 2016
 - Other information on the market for hotels and economic growth data can be used to support this.
4. The advantages of the moving average method of sales forecasting might be:
 - It is a good way of identifying trends in data over time
 - Seasonal variations can be used to understand how data changes over a year
 - Trend data can be projected to make future forecasts
 - It can support other information that affects sales in a market.

The disadvantages of using moving averages for sales forecasting could include:

- The method is based on past data and is not as useful for long-term forecasting
- Business needs to have sufficient past data
- Significant market changes make interpreting and forecasting data difficult.

Exam practice question

1. The 'moving average method' is averaging past data over set time periods to create a trend in the data.



2. Moving average data for Rajesh's convenience store:

	Quarter	Sales (\$000)	Quarterly moving average (trend)	Seasonal variation	Average seasonal variation
Year 1	1	18			
	2	24			
	3	35	26.125	8.875	9.208
	4	27	26.5	0.5	0.333
Year 2	1	19	27.125	-8.125	-7.208
	2	26	27.75	-1.75	-2.5
	3	38	28.5	9.5	9.208
	4	29	29.125	-0.125	0.333
Year 3	1	23	29.5	-6.5	-7.208
	2	27	30.125	-3.125	-2.5
	3	40	30.75	9.25	9.208
	4	32	31.375	0.625	0.333
Year 4	1	25	32	-7	-7.208
	2	30	32.625	-2.625	-2.5
	3	42			
	4	35			

3. The estimate of Rajesh's sales for year 5, quarter 4 is based on moving average trend (26.5, 29.125, 31.375): \$34,000.

4. The advantages of the moving average method for Rajesh's store might be:

- Effective for analysing changes over time
- Seasonal variations data can help to explain cyclical changes
- Good forecasting model
- Can be used to other information when forecasting.

The disadvantages of using moving averages for sales forecasting include:

- It is not as good for long-term forecasting because it is based on past data
- A firm may not have access to sufficient data
- Changes in market conditions can make it difficult to interpret data.

Key concept question

Considerations on the importance of innovation in business forecasting might include:



- Technological advances in forecasting methods – the use of more sophisticated computers and software
- Forecasting sales from newly innovated product it produces – to see whether the investment in the innovation is viable
- Forecasting sales when the innovation takes place in the market – to see how market changes affect the sales of a firm's products in the future.

Considerations on the importance of change in business forecasting might include:

- Economy through economic growth – how economic growth or recession affects sales forecasting
- Market through consumer taste and preferences and competition – if tastes change in favour of a product how it will affect sales forecasts
- Business management – how changes in management decision-making affects sales forecasts.



Section 4.4

Activity 4.4.1

The benefits to IKEA's managers of having detailed research information about their customers includes:

- Providing information about the changes in demand for IKEA's products
- Reducing the risks of new product launches and store openings
- Explaining how the sales of its existing products and stores is changing
- Assessing customer reactions to IKEA's current products and stores.

The weaknesses might be:

- Cost of conducting research
- Time consuming
- Can become out of date quickly
- Accuracy and validity of results.

Activity 4.4.2

1. Sources of secondary research for Carlos might be:

- Market intelligence reports
- Academic journals
- Government publications.

2. Carlos could conduct primary research by using focus groups of potential consumers of his restaurant.

3. Benefits to Carlos of undertaking primary research:

- It provides up-to-date information
- It provides relevant information for a specific purpose
- It is confidential to the business.

4. The usefulness of market research to Carlos might be:

- Providing information about the potential demand for Carlos's restaurants
- Providing information about the restaurant market he is entering
- Reducing the risk of opening a new restaurant
- Assessing customer reactions to the food and service the restaurant will provide.

The weaknesses might be:

- Takes time to conduct the research



- Information can go out of date
- The information may lack accuracy.

Activity 4.4.3

1. 'Secondary research' is the collection of data from second-hand sources.
2. Benefits to the US food exporter of the data researched from secondary sources includes:
 - Providing general information about the export market
 - Low cost
 - Quick to obtain.
3. Secondary information on Trinidad and Tobago that might be useful to the US food exporter includes:
 - High GDP per capita
 - Economic growth
 - 50% rise in in retail food sales from 2000 to 2013.
4. The usefulness of secondary research to the US food exporter might be:
 - Providing general information about the export market
 - Providing information about the potential consumers in the export market
 - Low cost
 - Quick to obtain.

The weaknesses might be:

- Out of date
- Not specific to the export business
- Accuracy of the information is questionable.

Activity 4.4.4

Research task.

Activity 4.4.5

The ethical issues involved in insurance companies collecting data from patient records might be:

- Patient confidentiality
- Who can access the information



- Patients with health issues may be exploited by higher premiums
- Whether the information is interpreted to support customers
- For some customers premiums might fall
- If people have healthy lifestyles, should they pay lower premiums.

Activity 4.4.6

1. 'Sampling method' is the way potential respondents are selected in a market research situation.
2. Secondary market research might have been chosen before commissioning the primary market research because it allowed PepsiCo to target its primary research more precisely.
3. The benefits of primary research for PepsiCo might be:
 - Provides up-to-date information
 - Relevant information for a specific purpose
 - Confidential to the business.
4. The possible problems PepsiCo might have faced when conducting its primary research include:
 - It is expensive
 - It takes time to conduct
 - It goes out of date over time
 - The reliability of the results.

The benefits might be:

- Information is up to date
- It is specific to the purpose of the research
- The results are confidential.

Activity 4.4.7

1. 'Quantitative market research' is research that produces statistical data which can be analysed by a business.
2. a. Proportion of total sales for the rotor mower: 27.27%
b. Proportion of total sales revenue for the rotor mower 37.5%.
3. Potential problems GCB might face by launching the product before market research is undertaken could be a lack of information about:
 - Consumers in the market
 - Competition in the market
 - Sales data in the market.



4. Qualitative market research has the following advantages:

- It gets more detailed information from consumers than quantitative research
- It generates new information from consumers
- It gives information on why consumers act in a certain way.

The disadvantages might be:

- High cost
- Smaller sample
- Difficult to analyse objectively.

Exam practice question

1. 'Primary research' is the collection of first-hand data directly related to a firm's needs.

2. Reasons why the telephone survey might be disappointing:

- Negative attitude of consumers to telephone surveys
- People are not always available to answer telephone calls
- Sampling method was not effective.

3. Secondary sources that Cosmos could use might be:

- Soft drinks trade organisation report
- Market intelligence report
- Government publication.

4. An alternative primary research technique could be a focus group. The advantages of this approach might be:

- It gets more detailed information from consumers than quantitative research
- It generates new information from consumers
- It gives information on why consumers act in a certain way.

The disadvantages might be:

- High cost
- Smaller sample
- Difficult to analyse objectively.



Key concept question

The importance of innovation in market research might be:

- New techniques of market research developed
- New technology-based market research
- Market research in markets that are affected by fast innovation
- Alternative market research methods into a newly developed product.

The importance of globalisation in market research might be:

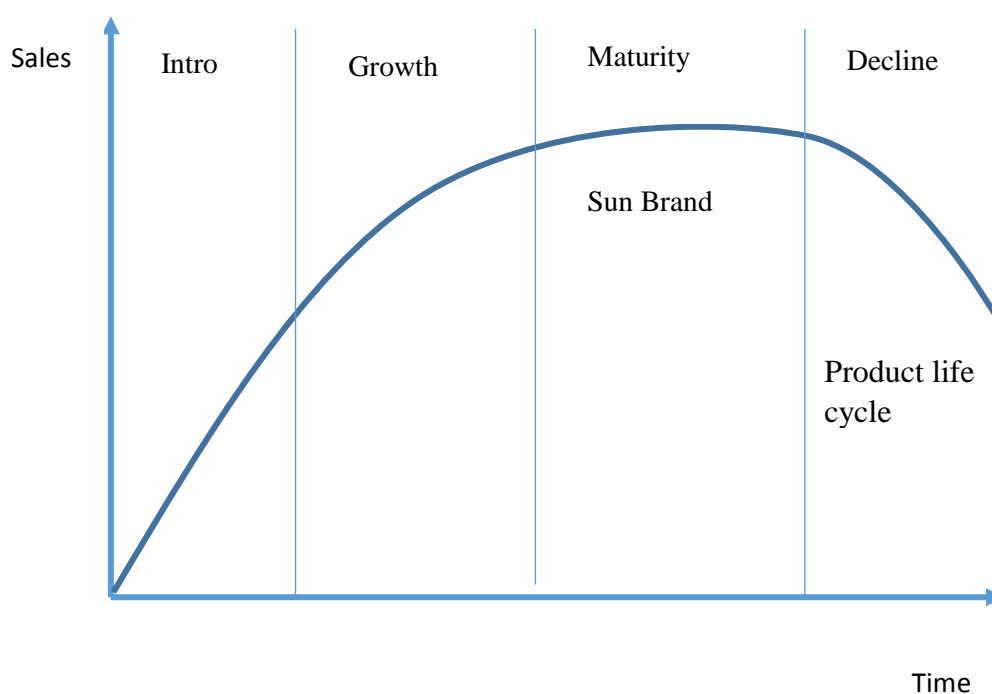
- Logistical challenges of market research in overseas markets
- Research techniques developed to reflect differences in language and culture
- Interpreting results from research in overseas markets.



Section 4.5

Activity 4.5.1

1. The 'product life cycle' is the way sales of a product change over time from its introduction until its decline.
2. a. Product life cycle diagram:



- c. The Sun brand might be in this phase of the cycle because sales revenue has not changed significantly over the last two years and has peaked at \$125 000.
3. Three extension strategies that Jupiter Confectionery could adopt for the Sun brand:
 - Rebrand the product – quick and low-cost but does not change the product that significantly for the consumer
 - Discount the price – increases the number of consumers who can buy the product but the product might appear lower quality to the consumer
 - Sell into a new market – increases the potential number of consumers but is a relatively high-cost approach.



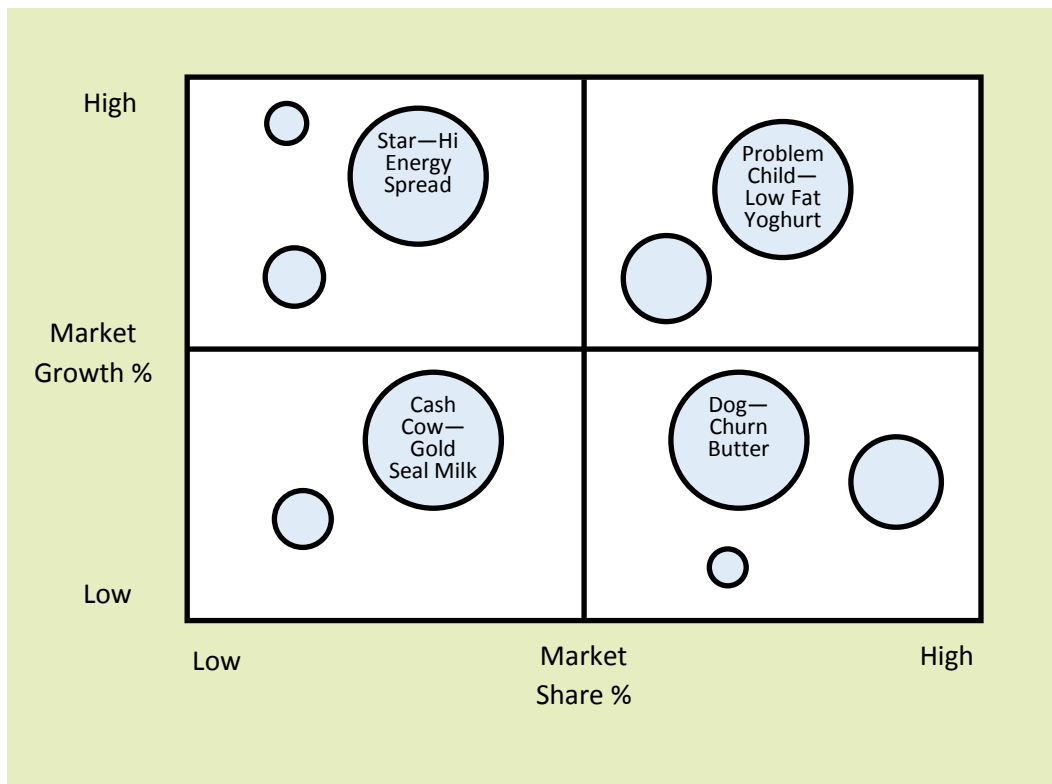
Activity 4.5.2

The estimates for the time the following products could be at phases of the product life cycle might be:

- Music download for a track by Eminem – weeks at each stage in product life cycle
- Breakfast cereal by Kellogg’s – months in introduction/growth phase, years in the maturity/decline phase
- New model of iPhone by Apple - months in introduction/growth/decline phase, 1-2 years in maturity phase
- Women’s fashion clothes by Zara – weeks at each stage in product life cycle.

Activity 4.5.3

1. ‘Market share’ is the percentage of total market sales that the sales of a specific product or business account for.
2. a. Boston Consultant Group matrix for FarmGate’s products:





b. Reasons for FarmGate's products placement in the matrix:

- Hi Energy spread – newish product with fast growth and high market share
- Lo Fat yoghurt – new product with growth but low market share
- Gold Seal milk – established product with high market share but no growth
- Churn butter – declining sales with a low market share.

3. Marketing strategy for FarmGate's Lo Fat yoghurt:

- Product development through new flavours
- Raise the price to a premium level to distinguish it from the competition
- Distribute through high-quality food retailers
- Promote through in-store tasting.

Hi Energy spread strategy:

- Product development through new flavours
- Reduce price to be more competitive
- Distribute through health food shops
- Promotion by sponsoring a sports team.

4. The advantages of the Boston Consulting Group matrix might be:

- Analysis of the relative performance of products in terms of the market through market share and growth
- As a planning tool for a marketing strategy
- Can be used in conjunction with other strategy tools like SWOT analysis
- Can be used in other aspects of business planning such as cash flow.

The disadvantages might be:

- Assesses current situation but is limited for forecasting
- Market share and growth do not necessarily mean success in other areas like profit
- Does not take into account factors other than market share and growth
- Interpreting the results of the model can be difficult because it does not explain why market share and growth are as they are.

Activity 4.5.4

1. A 'brand' is an identifying symbol, name, image or trademark that distinguishes a product from its competitors.
2. Brand awareness might be important for a business because:



- It differentiates products from its rivals
- Consumers develop loyalty
- It increases the value of a business.

3. Factors that might contribute to a successful brand might be:

- High levels of consumer satisfaction with the product
- Effective promotion
- Positive exposure of the brand in the market.

4. Corporate branding:

- All products are marketed under the same name
- Marketing economies of scale
- New products are easier to launch
- One poor product can damage the whole brand.

Own-label branding:

- Retailers create their own brands
- Products can be sold at lower prices
- Own-brand creates loyalty to the retailer
- Relative low-cost promotion
- Products perceived to be lower quality.

Activity 4.5.5

1. 'Cost-plus pricing' is adding a fixed mark-up for profit to the unit price of a product.
2. Volkswagen might be considering an increase in the price of its cars in China to cover rising costs of production in labour and raw materials.
3. Loss leadership means reducing the price of the cars to increase their sales and then making high profit margins on the accessories sold with the cars such as leather seats.
4. The advantages of using cost-plus pricing in Chinese car market might be:
 - Prices will cover all the costs of producing a car
 - Easy to calculate and apply where a single car brand is sold
 - Set profit margin can be achieved on each car sold
 - Effective for firms with market power

The disadvantages might be:

- More difficult to apply where firms sell more than one car brand



- Lacks flexibility where car prices can be increased or decreased for market conditions
- Falling sales lead to the rising unit fixed costs of a car, which means increasing prices when demand is weak.

Activity 4.5.6

1. a. Predatory pricing is deliberately undercutting competitors' prices in order to try to force them out of the market.
b. Sales revenue is the income the business receives from selling its products.
2. Two reasons why Dell might have seen a fall in its profit margins:
 - Lower selling price
 - Rising unit cost.
3. If the price of computers is reduced there might be a rise in demand for computer software as a complementary product.
4. The advantages of Dell reducing the price of its computers might be:
 - Increased sales revenue and profit
 - Increased sales volume
 - Economies of scale
 - Increased market share.

The disadvantages might be:

- Reduced profit margins
- Falling sales revenue
- Reduction of the perceived quality of the computers
- Leads to a price war with other computer manufacturers.

Activity 4.5.7

1. 'Above-the-line promotion' is a form of promotion that is undertaken by a business by paying for communication with consumers such as advertising.
2. The advertising by Cadbury and Evian are examples of above-the-line promotion.
3. Reasons why the sales of Evian water might have declined despite its successful advertising could have been:
 - Increased competition
 - Change in consumer taste away from branded water
 - Higher price of Evian water.



4. The advantages of viral and social media marketing to promote a business's products might be:

- Growth of the use of technology by potential consumers
- Networks of potential consumers are created
- Advertisements can be targeted at specific consumers
- Relatively low cost.

The disadvantages might be:

- Consumers ignore the adverts
- Huge amount of online advertising to compete with
- Networks of consumers may not promote the product in the way the business wants.

Activity 4.5.8

1. Two types of advertising media that are expected to see a fall in their share of advertising expenditure by 2015 are:

- Radio
- Newspapers.

2. Reasons why the share of advertising on the internet might be expected to grow:

- Growth of the use of technology by potential consumers
- Advertisements can be targeted at specific consumers
- Relatively low cost.

3. An implication for television companies of a decline in their share of advertising might be less revenue, which means they have to source revenue from other streams like pay-per-view.

4. The advantages of the rising adoption of smartphones and tablets on the promotion strategy of a business might be:

- Greater direct access to consumers
- Advertising can be more targeted at particular consumers
- Relatively low-cost promotion opportunity
- Networks of consumers can be created.

The disadvantages might be:

- Consumers ignore the adverts
- Huge amount of online advertising to compete with
- Networks of consumers may not promote the product in the way the business wants.



Activity 4.5.9

1. 'Marketing objectives' are the goals that are set for the marketing function of a business, such as target market share.
2. The marketing objective of the 'I AM Nikon' advertising campaign looked to increase the sales of Nikon cameras in the compact camera market segment.
3. Two ways Nikon used social media and new technology to promote its products were:
 - Consumers using Wi-Fi enabled cameras to upload photos and video of a music festival
 - Live streaming of the festival on Nikon cameras.
4. The advantages of Nikon's decision to use new technology and social media as part of its promotional strategy might be:
 - Greater direct access to consumers of cameras
 - Advertising can be more targeted at particular consumers
 - Facilitates innovative methods of promotion
 - Networks of consumers can be created.

The disadvantages might be:

- Consumers ignore the adverts
- Huge amount of online advertising to compete with
- Networks of consumers may not promote the product in the way Nikon wants.

Activity 4.5.10

1. M&M'S' Gangnam Style in Paris is a form of 'guerrilla marketing' because it is unconventional, uses a high impact effect and creates a big social media reaction.
2. The advantages of guerrilla marketing as an effective form of promotion for a product might be:
 - Low cost
 - Big impact
 - Exploits social media
 - Makes a product look different to the competition

The disadvantages might be:

- May not work with conventional consumers
- Marketing 'message' may not be understood by the consumer
- High-risk strategy
- Short-term rather than long-term impact.



Activity 4.5.11

1. The marketing-mix decisions that are not integrated:
 - Mix A – product
 - Mix B – promotion
 - Mix C – place
 - Mix D – place.
2. A change in the marketing mix for each product might be:
 - Mix A – design and manufacture a car for the exclusive segment of the market
 - Mix B – advertise through lifestyle magazines and newspapers
 - Mix C – locate the salon in an upmarket area of a town or city centre
 - Mix D – distribute through computer game specialist retailers and mainstream retailers as well as the internet.

Exam practice question

1. 'Distribution channel' is the medium a business uses to get its product to the consumer, such as through retailer.
2. Reasons Apple may want to open more of its own stores to distribute its products include:
 - It has more control over the way its products are sold
 - It can increase its profit margin
 - The Apple retailers act as promotional tools.
3. Effects of opening new stores on Apple's existing retailers might be:
 - New stores take sales from existing stores
 - More stores to support the customer service reputation of existing stores
 - More stores to deal with issues like the returning or repair of faulty products.
4. Distribution might be important as part of Apple's overall marketing strategy because:
 - Consumers gain access to Apple's products to see, try and buy them
 - Apple can use distribution through its shops to support the brand through effective customer service
 - Contact with customers through distribution gives Apple promotion opportunities
 - Distribution is efficient and cost effective to support customer service and pricing strategy.

Other aspects of marketing are also important: pricing, product and promotion.



Key concept question

Changes that innovation might bring in the management of the marketing mix include:

- Changing/improving the quality of the product
- Opportunity to reduce price by reducing the unit costs
- Increasing price as the quality of the product improves
- Affecting promotional methods such as social media
- Greater access to customers for promotion through mobile and online devices
- Distribution of products through online shopping and delivery
- Online distribution through downloading and streaming.



Section 4.6

Activity 4.6.1

1. People might be important to retailers because they are responsible for customer service.
2. Apple has used training to get the best from its people by using the five stages of customer service, such as approaching customers with a personalised and warm greeting.
3. Apple could also improve the performance of its people by using financial incentives such as bonuses, commission or by paying higher wages than its competitors.

Activity 4.6.2

1. 'Process' is the procedures and policies that are put in place to provide the service or the product to the consumer.
2. Process might be important to Zappos because it makes sure each aspect of the customer experience of business is satisfying, including areas such as ordering, delivery and billing.
3. A problem for Zappos following the data breach might be that some customers will stop using the service, which will reduce revenues and profits.

Activity 4.6.3

1. 'Physical evidence' is the environment of Carrefour retail outlets, made up of quality of the building, fixtures, layout, lighting, parking and customer facilities.
2. The differences and similarities between physical evidence, people and process at Carrefour are:

Physical Evidence at Carrefour involves the quality of:

- The building
- In-store fixtures
- Layout
- Lighting
- Parking
- Customer facilities.

People at Carrefour involves the quality of:

- Sales staff



- Shop floor staff
- Managers
- Customer service staff.

Process at Carrefour involves the quality of:

- Stock management
- Availability of goods in-store
- Check-out operation
- Payment system.

Activity 4.6.4

These might be important aspects of people, physical evidence and process to British Airways' marketing strategy:

Physical evidence at BA involves the quality of:

- The build of the aircraft
- Aircraft fixtures and fitting
- Seats
- Inflight entertainment
- Food and drink.

People at BA involves the quality of:

- Cabin crew
- Check-in staff
- Flight crew
- Booking staff.

Process at BA involves the quality of:

- Procedures for getting customers from check-in on to the plane
- Ticket booking
- Billing
- On-board systems for safety.

Exam practice question

1. 'Extended marketing mix' is the addition of physical evidence, people and process to the traditional mix of the four Ps of price, product, promotion and place.
2. Ways UGG has used physical evidence as part of its extended marketing mix includes:
 - Attractive stores
 - Spacious store layout



- High-quality fixtures and fittings in-store.
3. UGG has improved its process as part of its retail marketing strategy by upgrading its IT systems to improve the quality of the order experience for customers.
 4. People may be important to UGG's extended marketing mix in its retail outlets because:
 - Sales staff serve customers effectively
 - Shop floor staff help customers in the shops
 - Managers maintain well-motivated and directed staff
 - Customer service staff deal with customer issues effectively.

There are, however, six other elements to the marketing mix that need to be considered as well (for example, product, price, etc.).

Key concept question

The extended marketing mix might be different in different cultures in the following ways:

- Physical evidence – it might be very important in a 'power culture' (high-quality building, fittings, layout, etc) to show the prestige and influence of the people at the top of the organisation. In a 'task-oriented culture' the physical evidence could be more functional.
- People – might be seen as a very important part of a 'person culture' organisation because the staff see the critical role they have in the organisation. This may not be so important in a 'task culture' organization, which is based more on systems.
- Process – might be critical in a 'task culture' when the organisation sees making systems work effectively as critical. This may not be such a strong factor in a 'person culture' focused more on people.



Section 4.7

Activity 4.7.1

1. A 'franchise' business format is the granting of a licence by one person (the franchisor) to another (the franchisee), which entitles the franchisee to own and operate their own business under the brand, systems and proven business model of the franchisor.
2. One benefit to a business of franchising as a method of entering an international market might be the local knowledge of the franchisee.
3. Other methods a business could use to enter an international market might be:
 - Direct exporting
 - Joint ventures
 - Licensing.
4. The opportunities to Yogen Früz, Dunkin' Donuts and Cartridge World of entering international markets might be:
 - New customers, higher sales and higher profits
 - Spreading risk across different markets
 - Economies of scale
 - Low-cost resources
 - Learning innovative ideas
 - Enhancing brand image

The threats might be:

- Cultural and language differences
- Logistical/transport costs
- Lack of knowledge of overseas markets
- Diseconomies of scale
- Trade barriers and government regulations
- New competition.

Activity 4.7.2

1. A 'global brand' is an internationally recognised identifying symbol, name, image or trademark.
2. The strengths of Zumo's strategy as a method of marketing its products in different countries might be:
 - Energy drinks are the growing health market



- Wide distribution through supermarkets
- Health specific distribution through sports clubs
- Broad based media advertising
- Sport specific endorsements

Its weaknesses might be:

- High price above competition
- Spanish rather than global identity.

Activity 4.7.3

1. Two reasons why the attitude of Chinese consumers to running is different to Western consumers:
 - Not considered a sport in the same way as football or basketball
 - Polluted cities in China.
2. It might be important for Nike to understand cultural differences between consumers when it markets its products internationally because:
 - Promotion needs to reflect international values and ideologies
 - Product needs to reflect local tastes and lifestyles
 - Price needs to reflect international values and attitudes
 - Place needs to reflect customs
 - People have different customs
 - Physical evidence reflects local tastes
 - Process is affected by attitudes and rituals.

Exam practice question

1. 'Global localisation' is adapting the marketing mix, including differentiated products, to meet national and regional tastes and cultures.
2. Reasons why McDonald's might have decided to enter international markets include:
 - To increase sales and profits
 - To spread risk across different markets
 - Economies of scale.
3. McDonald's might take cultural and religious factors into account when marketing internationally so that the food it serves meets the cultural and religious needs of local consumers. Failing to do this means the products may not sell, and/or the company might face legal action.



4. The advantages of McDonald's changing to a global localisation strategy from a pan-global approach might be:
- To meet the taste and preferences of local consumers, more effectively increasing sales and profits
 - To gain positive publicity
 - Less likely to upset local interest groups
 - Less likely to break government regulations.

The disadvantages of this approach might be:

- Loss of original identity and appeal to consumers
- Loss of economies of scale
- Difficult to compete with local products.

Key concept question

The importance of culture in international marketing might be:

- Product is affected by local tastes and preferences
- Price is affected by the value local consumers put on different goods
- Promotion needs to meet with culturally accepted norms
- Place is influenced by where culturally local consumers buy their goods.

The importance of ethics in international marketing might be:

- Selling goods that could be harmful to local consumers, like cigarettes
- Charging prices that might force local firms out of the market
- Using advertising that offends religious customs
- Locating production that adversely affect local residents.



Section 4.8

Activity 4.8.1

1. 'E-commerce' is the buying and selling of goods and services on the internet.
2. Currys used business-to-consumer e-commerce to market its products by closing its high street Dixons stores and moving the Dixons brand completely online.
3. A potential benefit to Burberry of e-commerce is to use online streaming of its collections and fashion shows to reach a wider target audience and increase the potential market for its product.
4. The advantages of Dixons' decision to close its high street stores and go 'fully online' might be:
 - Removes the cost of operating high street shops
 - Ease of operation
 - Benefits of specialising in online selling
 - Gives it a clear brand identity.

The disadvantages might be that it loses:

- Sales of customers who do not shop online
- In-store customer feedback
- Ability to promote sales in-store
- Ability to satisfy customers through good service.

Exam practice question

1. 'Business to business e-commerce' is e-commerce transactions conducted directly between a supplying business and a purchasing business.
2. US businesses might have benefited by using Alibaba as a way of sourcing components from Chinese suppliers because of the low prices offered by business suppliers on Alibaba.
3. One problem businesses might have using Alibaba as a way of buying and selling goods is the risk of buying counterfeit goods, and subsequently losing the trust of consumers.
4. The advantages to American consumers of Alibaba setting up operations in the US might be:
 - Lower prices
 - Wider range of goods available
 - Greater competition for US firms forces them to reduce prices and improve quality



The disadvantages might be:

- Counterfeit goods
- Poor-quality goods.

Key concept question

The advantages of businesses using e-commerce might be:

- Lower input costs from online suppliers
- More efficient sourcing from online suppliers
- Increasing number of potential customers
- Lower costs of promotion and selling
- Increased computer/mobile device ownership
- Effective data collection on customers.

The disadvantages might be:

- Reliability of internet connections and quality of IT services in some countries
- Reduced direct contact with consumers
- Increased product returns
- Internet security
- Cost of developing effective IT infrastructure
- Increased direct competition and price comparison online.



Section 5.1

Activity 5.1.1

1. 'Operations management' is the monitoring, designing, and controlling of the production process by the management of the business.
2. Resources Dell might need in its production process include:
 - Production line labour
 - Raw materials
 - Machinery.
3. Operations management at Dell would want to maintain a close relationship with other departments because:
 - The right number of products are available for the sales and marketing department to sell
 - The operations management department can ask human resource management for the right number of workers
 - The finance department can raise the funds for operations.
4. The advantages to Dell of adopting 'sustainable objectives' might be:
 - It reduces waste and associated costs
 - Attractive to consumers
 - Government subsidies and tax incentives
 - Positive publicity
 - Meets government regulations.

The disadvantages might be:

- It increases the cost of production
- Cost of investment in sustainable capital and technology
- Higher prices for consumers reduces demand
- Production becomes more complex.

Activity 5.1.2

1. 'Sustainable operation' involves using the assets of the company efficiently to allow it to continue functioning profitably over time.
2. FFRC could be described as an ecologically sustainable business because it does not disrupt ecosystems; when it uses discarded flip-flops as raw materials for production it cleans up the local beaches.



3. FFRC could be described as a socially sustainable business because it provides long-term employment for the local community in the craft industry.
4. FFRC might be sustainable in the long term because:
 - Tourism is a growth market
 - Ecological products make the business attractive
 - It has low costs of production
 - It trains people in communities
 - It is ecologically sustainable production

FFRC may not be socially sustainable if:

- Consumer tastes change
- Workers are attracted to higher-paying jobs
- Competition from similar products emerges
- The number of flip-flops being washed up falls.

Exam practice question

1. 'Social sustainability' is the ability of a community to develop processes and structures which not only meet the needs of its current members but also support the ability of future generations to maintain a healthy community.
2. Responsibletravel.com could manage its operations in a socially sustainable way by:
 - Using hotels and apartments that are socially sustainable
 - Promoting their holidays to customers who act in a socially sustainable way
 - Having policies and systems that are socially sustainable in local tourist areas.
3. Benefits of Responsibletravel.com being socially responsible might include:
 - Being attractive to socially aware consumers
 - Strong brand identity in a competitive market
 - Government support in local tourist markets.
4. The advantages of Responsibletravel.com being socially and ecologically responsible might be:
 - Being attractive to socially aware consumers
 - Having a strong brand identity in a competitive market
 - Gaining government support in local tourist markets
 - Being attractive as an employer
 - Growth market

The disadvantages might be:



- Currently a niche market so limited demand
- Higher costs of operating
- New competition in the market.

Key concept question

The impact of innovation on sustainable operations management might be:

- Development of sustainable production methods
- Entry into sustainable markets
- Development of sustainable products
- Accessing sustainable raw materials.

The impact ethics might have on sustainable operations management might include:

- Owners and managers setting sustainable objectives
- Employees working in a sustainable way
- Consumers seeing the importance of sustainability
- Government supporting sustainability.



Section 5.2

Activity 5.2.1

1. 'Batch production' is producing a limited number of identical products where each item in the batch goes through one stage of production before passing on to the next stage.
2. Wedding cakes produced by Sunburst bakeries would be produced as individual units, which is job production.
3. Factors that affect the type of production Sunburst uses might be:
 - Number of units to be produced
 - Nature of product
 - Unit cost Sunburst wants to achieve.
4. The advantages of Sunburst's decision to switch from batch to flow production might be:
 - Lower unit costs
 - Economies of scale
 - Increase in production capacity
 - More standardised products.

The disadvantages might be:

- High initial capital cost
- Lack of flexibility
- Some consumers put off by mass production.

Activity 5.2.2

Appropriate production methods:

- a. Children's clothing – batch production
- b. Electric plugs – flow production
- c. Ceramic pots for the wealthy – job production
- d. Desktop computers for consumers with slightly different specifications – mass customisation.

Activity 5.2.3

The advantages for business of mass customisation might be:

- Low unit costs



- Economies of scale
- High production capacity
- Products can be adapted for consumers
- Variety of tasks is attractive to employees.

The disadvantages might be:

- High initial capital costs
- Capital is more complex to operate
- High cost, high skilled workers
- Difficult for small and medium-sized businesses
- Not suitable for certain types of production.

Exam practice question

1. 'Flow production' is producing items in a continually moving production line, which can be a continuous 24-hours-a-day method.
2. Disadvantages BMW might have encountered using flow production include:
 - High initial capital costs
 - Lack of flexibility
 - Some consumers put off by mass production.
3. Characteristics of cell production include:
 - Team-based production
 - Workers have multiple tasks
 - Teams are responsible for starting and finishing the production of a product.
4. The advantages of BMW switching from flow production to cell production might be:
 - Increased motivation of staff
 - Flexible production system
 - Low handling costs
 - Improved quality.

The disadvantages might be:

- High initial capital costs
- High cost, high skilled workers
- Output lower than flow production
- Conflict between cells.



Key concept question

The importance of innovation in different production methods might be:

- Advances in capital as firms develop and use new types of machinery
- Advances in IT allow new production systems to develop
- New production systems (change from flow to mass customisation)
- Motivation of employees using new production methods
- Training of employees to use new production methods
- Development of new products (types of production system they need to produce them).



Section 5.3

Activity 5.3.1

1. 'Productivity' is the ratio of outputs to inputs during production often expressed as output per worker hour.
2. The key features of continuous improvement are:
 - Importance of staff/worker involvement in decision-making
 - Team-working (kaizen groups) to improve quality and productivity
 - Kaizen group empowered through decision-making responsibility.
3. Team-working may have led to a rise in productivity at Ambi-Rad because staff feel empowered/motivated through:
 - Its 150 staff divided into groups to work in teams
 - Team leader encouraging new ideas from the groups.
4. The possible problems of Ambi-Rad introducing lean production might be:
 - Highly skilled labour needs to recruit, or existing labour trained
 - Cost of new capital and technology
 - Employee/union resistance to flexible contracts
 - Management/employee culture might resist the change.

These problems may be overcome with:

- Effective communication
- Financial rewards for managers and employees for making the change
- Effective training
- Resourcing the change with appropriate finance.

Activity 5.3.2

1. 'Just-in-time (JIT) stock-control' aims to avoid holding stocks by requiring supplies to arrive just as they are needed in production, and completed products are produced to order.
2. Features of JIT stock control management include:
 - Low levels of stock held
 - Stock ordering based on consumer demand
 - Strong relationships with suppliers.



3. Problems for businesses of using a single supplier for their components might be:

- Supplier goes bankrupt
- Supplier increases prices
- Interruption to the supplier's production.

4. The advantages of Nissan and Toyota using JIT stock control include:

- Reduces the capital invested in stock
- Cost of storage and other stock holding costs reduced
- Chances of stock becoming outdated is reduced
- Business is quicker to respond to changes in demand
- Improved worker motivation.

The disadvantages might be:

- Interruptions to supply of materials or components
- Order administration costs rise
- High delivery costs
- Loss of purchasing economies of scale.

Activity 5.3.3

1. 'Lean production' is producing goods and services efficiently with the minimum of waste resources while maintaining high quality.

2. Yukai Resort has applied lean production in the following ways:

- Multi-skilled staff so jobs can be interchanged
- Kaizen circles involve employees in decision-making.

3. The application of lean production may allow Yukai to keep the price at \$91 because the high level of productivity reduces the unit costs of production and allows the firm to keep the selling price low.

4. The difficulties of Yukai using lean production might be:

- Needs highly trained staff
- Needs highly motivated staff
- Cost of investment in capital
- Cost of training staff
- Resistance from employees and management



These problems may be overcome with:

- Effective communication
- Financial rewards for managers and employees for making the change
- Effective training
- Resourcing the change with appropriate finance.

Activity 5.3.4

1. 'Cradle to cradle manufacturing' is a principle that seeks to create production techniques that are not just efficient but are essentially waste-free and truly sustainable.
2. Benefits to a business using cradle-to-cradle manufacturing might be:
 - Reduction in waste costs
 - Positive publicity
 - Government support through subsidies or tax incentives.
3. Cradle-to-cradle might increase business costs because of the costs of capital investment and staff training needed to create sustainable production.

Activity 5.3.5

1. 'Quality assurance' is a system of agreeing and meeting quality standards at each stage of production to ensure consumer satisfaction.
2. FatBoy Trims has tried to improve the quality of its product by providing a better service to its customers through things like:
 - Maximum time for phone to ring
 - Maximum waiting time for appointment
 - Maximum waiting time between hair wash and when cutting begins.
3. Improving the quality of the products can increase FatBoy Trims' revenue by:
 - Increasing consumer demand for FatBoy Trims hairdressers
 - Allows FatBoy Trims to increase its prices.



Activity 5.3.6

1. Two problems for TTF because of low-quality products might be:
 - Falling demand because of dissatisfied customers
 - Cost of dealing with faulty goods returned.
2. Quality control is based on inspection of the product or a sample of products, whereas quality assurance is about preventing poor quality occurring by designing high-quality products and having high-quality systems of production.
3. The advantages of TTF's decision to increase the number of quality control inspectors might be:
 - Workers know there are tighter controls so are more motivated to increase quality
 - Fewer faulty tractors reach customers
 - Greater knowledge/understanding of faults in tractors.

The disadvantages might be:

- Cost of employing the extra inspectors
- Employees are less concerned with faults if they know they will be picked up by inspectors
- Employees lose motivation because they feel management does not trust them.

Exam practice question

1. 'Total quality management' (TQM) is a complete approach to the management of an organisation. It looks to improve the quality of products through continuous improvements in the way the organisation operates.
2. Two ways investment in new machinery could improve Haisho Electronics' efficiency might be:
 - Makes systems like changing tools quicker and easier
 - Machinery is less likely to break down.
3. Reasons why Haisho Electronics might be losing competitiveness include:
 - Investment by competing firms in new technology
 - More lean production among competitors
 - More effective management.
4. The advantages of Haisho Electronics using lean production might be:
 - Increased employee motivation through team working
 - Product quality improvements



- Benefits of holding low stocks levels
- High levels of productivity.

The disadvantages might be:

- Highly skilled labour needs to be recruited or existing labour trained
- Cost of new capital and technology
- Employee/union resistance to flexible contracts
- Management/employee culture might resist the change.

Key concept question

The importance of innovation in operation management:

- Capital investment in new machinery
- Technological advances in capital such as IT and mobile communications
- New production systems such as the introduction of JIT
- Need to develop greater efficiency to be competitive.

The importance of globalisation in operation management:

- Competition from overseas increases the need to develop greater production efficiency
- Access to employees from overseas can increase skill availability and reduce costs
- Offshoring allows production to occur in other countries
- Access to overseas suppliers of raw materials and capital can reduce production costs.



Section 5.4

Activity 5.4.1

1. Benefits the regional economy might gain from Nissan's location in Sunderland include:
 - Increase in local tax revenue for public services
 - Employment created
 - Business created for suppliers.
2. The advantages Nissan might receive because of its decision to locate in Sunderland include:
 - Subsidy finance received to fund investment
 - Low cost of labour in the area
 - Motivated labour force
 - Low cost of land.

The disadvantages might be:

- Lack of a skilled workforce
- Suppliers may not be located nearby
- Lack of infrastructure.

Activity 5.4.2

1. Profit from different locations:

\$	Location A	Location B
Sales revenue	1 250 000	765 000
Cost	975 000	498 000
Profit	275 000	267 000

2. One reason why a change in location might lead to a rise in profits from higher sales revenue is because of more customers in location A.



Activity 5.4.3

TLC might choose Site X because it has:

- Shorter payback (2.5 years)
- Lower initial investment (\$2m)
- Debt is lower with rising interest rates.

Site Y does have a higher ARR, which means it generates greater returns over the life of the investment.

Activity 5.4.4

ICT Chemicals might choose Site D because:

- It has a lower break-even output (2m litres)
- Low wages rates
- Few regulations.

Site D does have the problem of political instability.

Activity 5.4.5

A qualitative factor affecting Rolls-Royce's decision to locate in Goodwood is a location near a small airport which allows it to offer buyers high-quality customer service.

Activity 5.4.6

Toyota's decision to operate factories in so many different countries might have the following advantages:

- Spreads production risk across different countries
- Opportunity to produce at lowest cost in different countries
- Gives local access to different markets
- Utilises the production expertise in different markets.

The disadvantages might be:

- Logistical challenges of operating in many different countries
- Language and cultural challenges
- Communication problems
- Government regulations.



Activity 5.4.7

1. 'Outsourcing' is using another business (a 'third party') to undertake a part of the production process rather than doing it within the business using the firm's own employees.
2. Potential advantages to an airline of outsourcing inflight catering might be:
 - Lower cost of outsourced food
 - Outsourced business is better at inflight catering
 - Airline can concentrate on its core functions.
3. The advantages of an airline outsourcing its maintenance might be:
 - Cost of outsourced maintenance is lower
 - Quality of the outsourced maintenance is better
 - The business can focus on its core functions.

The disadvantages might be:

- Lack of control over the outsourced maintenance
- Poor quality of outsourced maintenance
- Cost of outsourced maintenance might be higher in the long term.

Activity 5.4.8

1. 'Offshoring' is the relocation of a business process from one country to another country.
2. TRG's location in Pakistan might have increased profits by:
 - Reducing set-up costs through cheap land
 - Reducing labour costs
 - Benefitting from government incentives that reduce tax.
3. A large pool of English-proficient graduates in Pakistan might be a benefit to TRG because it provides:
 - A skilled labour force which makes production more efficient and reduces unit costs
 - A skilled labour force that improves the quality of the product provided
 - Innovative employees that develop new products and systems.
4. Three problems TRG has faced locating in Pakistan:
 - Cultural differences – affect the way employees work and the relationship with suppliers
 - Lack of general management experience among graduates – there are training costs associated with this and it takes time



- Lack of support organisations – not having access to services like recruitment may hinder TRG’s performance because it is more difficult to hire staff.

Activity 5.4.9

The advantages of GM’s and Burberry’s decision to insource more of their operations might be:

- More control over insourced operations
- Higher-quality insourced operations
- Positive domestic publicity for insourcing
- Lower management burden.

The disadvantages might be:

- Higher costs of production
- Logistical difficulties of moving production
- Business finds it more difficult to focus on core functions.

Exam practice question

1. A ‘joint venture’ is a business arrangement where two or more organisations agree to pool their resources for a particular business activity.
2. One qualitative factor of locating in Cairo might be good business relationships between Egyptian government officials and Mercedes management.
3. One reason Mercedes might choose a joint venture to enter the Egyptian economy might be the local knowledge of an Egyptian partner organisation that knows the local market well.
4. The advantages to Mercedes of its decision to increase offshoring operations in Egypt might be:
 - Lower costs of production
 - Avoid import tariffs
 - Access to local car market
 - Take advantage of skilled, highly motivated labour force.

The disadvantages might be:

- Set-up costs
- Cultural and language barriers
- Control over production
- Logistical difficulties.



Key concept question

How stakeholders might have benefited from offshoring and outsourcing:

- Consumers – lower prices because of lower unit costs of production
- Shareholders – higher profits and dividends because of lower unit costs
- Employees – job losses
- Suppliers – loses business
- Government – loss of tax revenue
- Local community – rise in unemployment



Section 5.5

Activity 5.5.1

1. The 'supply chain' is every business that comes into contact with a particular product from the point where it is manufactured to the point where it is sold.
2. Zara's supply chain is set out as:
 - Factories in Spain, Portugal, Morocco and Turkey
 - Distribution centre in Spain
 - Products sold through 1770 stores in 86 countries.
3. Two reasons why Zara's supply chain might give it a competitive advantage:
 - Its factories allow it to control the quality of its clothing
 - Its retailers allow it to control the way its clothing is sold.

Activity 5.5.2

1. 'Buffer stock' is the minimum stocks that should be held to ensure that production can still take place should a delay in delivery occur or production rates increase.
2. a. Saiko received 700 000 units at the end of January.
b. The lead time is one month.
3. Two factors that might determine the maximum stock level held by Saiko:
 - Capacity of storage facilities
 - Speed of order delivery time.
4. The advantages of using the just-in-case method of stock control include:
 - Stock of materials is available to meet an increase in demand
 - Stock is less likely to run out and interrupt production
 - Purchasing economies of scale
 - Stocks are available as a marketing opportunity.



The disadvantages might be:

- Opportunity cost of working capital tied up in stock
- Storage cost of stock
- Deteriorating quality of stock over time
- Stock storage space can be used for production.

Activity 5.5.3

1. 'Capacity utilisation' is the proportion of maximum output capacity currently being achieved.
2. Factors that might account for falling rates of capacity utilisation in London hotels includes:
 - Rise in price of hotel rooms
 - Rise in the value of the pound makes London more expensive as a tourist destination
 - More hotels being built in London.
3. Possible consequences of rising capacity utilisation in Istanbul's hotels includes:
 - Increasing price of hotel rooms
 - Customers find it more difficult to get a room
 - Greater incentive for hotels to increase capacity.

Activity 5.5.4

1. Capacity utilisation rates for Nassau in each of the three years:

	2012	2013	2014
Capacity utilisation rate	80%	74%	60%

2. Profits made by Nassau in each of the three years:

Sales revenue (\$m)	12	11.1	8.1
Variable costs	8	7.4	6.6
Fixed cost	3	3	3
Total cost	11	10.4	9.6
Net profit	1	0.7	-1.5

3. The relationship is that a fall in capacity utilisation rates leads to a fall in profits.
4. The advantages to Nassau of having a low capacity utilisation rate are:
 - Spare capacity to meet an increase in demand



- Capital is not worked too hard so it is less likely to break down
- No requirement to seek outside supply.

The disadvantages might be:

- Fixed costs per unit are higher
- Idle resources not generating output
- Under-utilised machinery does not work as efficiently.

Activity 5.5.5

1. 'Labour productivity' is the ratio of output to labour input during production.
2. Labour productivity of the three businesses:

	Rapid Pizza	Pizza to Go	Pizza4U
Labour productivity	200	220	264

3. Rapid Pizza is the most efficient.
4. Reasons for the different rates of productivity for the three businesses might be:
 - Motivation of workers
 - Better quality capital
 - More effective production systems.
5. Labour productivity might be important for the long-term performance of firms in the pizza industry because:
 - Overall business productivity increases
 - High productivity leads to lower unit costs
 - Lower prices can be charged with lower unit costs
 - Higher sales might be achieved through lower prices
 - Higher profit margins can be achieved if unit costs fall by more than selling price
 - Higher profit margins and greater sales increase total profits.



Activity 5.5.6

1. Labour and capital productivity for the Westlife factory.

	2012	2013	2014
Labour productivity	2500	2292	2000
Capital productivity	5000	4583	4000

2. The trend in labour and capital productivity over the three years is downwards.

3. Two reasons for the fall in labour productivity might be:

- Less motivated workers
- Less efficient production systems.

4. Possible consequences of the fall in capital productivity include:

- Rise in fixed costs per unit
- Its jean prices rise
- Westlife is less competitive in the market.

5. Two methods Westlife could use to increase labour productivity might be:

- Change the financial and non-financial rewards workers receive to increase motivation
- Improve the quality of capital workers use through advances in technology.

Activity 5.5.7

1. The direct costs of making product X and Y:

Product	X	Y
Direct labour costs per unit	\$5	\$7
Direct material costs per unit	\$4	\$12
Total direct cost per unit	\$9	\$19



2 & 3. The costs to make 500 units of product X and 1000 units of product Y:

Product	X	Y
Total direct cost	\$9 x 500 = \$4500	\$19 x 1000 = \$19 000
Fixed Factory cost	\$2000	\$3000
Total cost	\$6500	\$22 000

4. Total cost to buy product X and product Y:

Product	X	Y
Cost to buy	\$11 x 500 = \$5 500	\$24 x 1000 = \$24 000

5. The business might consider the following factors when deciding whether to buy or make product X or product Y:

- Product X is cheaper to buy
- Product Y is cheaper to make
- How much control the business wants over the production of the product
- How productive capacity freed by buying the product might be used
- Financial implications of ceasing production, such as redundancy
- Reliability of the supplier of the components.

Exam practice question

1. 'Capacity utilisation of 90%' means that 90% of the maximum output is currently being produced.
2. The difference between stock holding costs and costs of not holding enough stock include:
 - Stock holding costs – storage, insurance, factory space, deterioration of stock
 - Stock out costs – loss of sales, dissatisfied customers, interruption to production.
3. Criteria MFLEX would need to meet in order to use JIT stock management includes:
 - Short lead time from suppliers
 - Reliable suppliers
 - Effective information on demand for its products.
4. The advantages of MFLEX's decision to use JIT stock management:
 - Reduced stock holding costs – storage, insurance, deterioration of stock
 - More factory space can be used for production
 - Business is more responsive to consumer demand



- Increased motivation of staff as part of lean production.

The disadvantages might be:

- Production delays if MFLEX's suppliers do not deliver on time
- Loss of purchasing economies of scale
- MFLEX develops a reputation as an unreliable supplier
- Needs a well-trained and motivated labour force.

Key concept question

Points to cover in considering the validity of the statement might include:

- Management techniques that have been used in different countries: TQM, cradle to cradle, Andon, kaizen, benchmarking
- The desire to achieve efficiency is an aim in organisations in many different countries
- Increased globalisation means organisations all over the world are exposed to management techniques from other parts of the world
- Cultural differences exist in countries, which may mean resistance to globalisation of management techniques
- How management tries to overcome cultural differences to allow globalised management techniques to work.



Section 5.6

Activity 5.6.1

1. 'Research and development' (R&D) is the scientific research and technical development of new products and processes.
2.
 - a. Total revenue in 2013 for Toyota = \$265B.
 - b. Total revenue in 2013 for Volkswagen = \$237B.
3. Reasons why different industries might spend such large sums on research and development include:
 - To develop new products to be competitive
 - To develop new products to attract consumers
 - To develop new systems to reduce unit costs.

Activity 5.6.2

1. A process change innovation for Aviva might be developing an app for consumers.
2. A product change innovation for Aviva might be cycling insurance as the market for cycling grows.
3. A positioning change innovation for Aviva might be into insurance for a new technology product like mobile phones.
4. A paradigm change innovation for Aviva might be providing financial education for university students.

Activity 5.6.3

1. One adaptive creative product that might not be innovatively creative is the Airbus 380 because it is just the adaptation of an airplane that already exists.
2. iTunes is innovatively creative because it is a completely new way of accessing music.
3. One further adaptive creativity example could be on-demand TV, where users can access programmes that have already been shown. This is an important selling point for the Sky TV television platform.



Activity 5.6.4

1. A 'trademark' is a symbol, mark or logo that clearly identifies the product in the market.
2. Innovative products can add to the value of Gillette because it creates brand loyalty. Long-term consumers who keep buying Gillette's products add to the value of the business.
3. Reasons why Gillette spends large amounts of money on R&D might include:
 - To give it a competitive edge
 - To attract new consumers
 - It allows Gillette to produce its products more cheaply.

Exam practice question

1. 'Innovation' is the practical application of new inventions into marketable products.
2. Adaptive creativity is minor incremental or adaptive improvements to a product. Innovative creativity means developing a product that transforms what is available to the consumer.
3. Factors that might have affected the R&D strategies used by Amazon and Volkswagen include:
 - Innovation by competing firms
 - Advances in technology
 - Finance available to them.
4. Advantages to Amazon and Volkswagen of spending large amounts of money on R&D include:
 - Keeps them ahead of, or up with, the competition
 - Develops new products to attract consumers
 - Reduces unit costs if it increases productivity
 - Allows them to diversify into new markets.

The disadvantages might be:

- Cost of funds used
- Some R&D fails
- Profits from R&D takes a long time to generate
- Investors interested in short-term returns.



Key concept question

How business strategy affects R&D:

- Importance of innovation in strategy in terms of developing new products and production systems
- Dynamic nature of the market means firms need to innovate to keep up with changing consumer demand
- R&D by competing firms makes a business innovate to keep up and maintain market share
- Increasing importance of technology in the market means firms have to innovate because products and production systems change so quickly
- How quickly management wants to see profits from innovation. Some innovation has a long payback time.
- Importance of change in strategy. The culture of some firms is to constantly strive through change, while others change little.



Section 5.7

Activity 5.7.1

1. 'Contingency planning' is preparing the immediate steps to be taken by an organisation in the event of a crisis or emergency.
2. Advantages of FDS undertaking contingency planning might be:
 - There are clear steps for management and employees to follow in response to a crisis situation
 - Reassures stakeholders
 - Promotes a culture of planning and safety.
3. Examples of effective crisis management in FDS's case include:
 - Rehousing the entire business
 - Data was backed up off-site.
4. The advantages of FDS having contingency planning might be:
 - There are clear steps for management and employees to follow in response to a crisis situation
 - Reassures stakeholders
 - Promotes a culture of planning and safety
 - Minimises negative impacts of a crisis.

The disadvantages might be:

- Process is costly and time-consuming
- Needs to be updated
- Cost of training employees
- Difficult to plan for all eventualities.

Activity 5.7.2

The advantages to Cadbury of contingency planning might be:

- The procedure for Cadbury to deal with the crisis is clearly set out
- Stakeholders feel reassured
- Planning and safety are seen as important to the organisation
- It highlights the negative impacts of the crisis.

The disadvantages might be:

- It takes time to be produced



- The cost of producing the plan
- It needs to be changed during the process
- Employees need to be trained
- Planning for all outcomes is difficult.

Exam practice question

1. 'Crisis management' is the steps taken by an organisation to limit the damage from a significant event by handling, containing and resolving it.
2. Steps BP would have gone through for a contingency plan include:
 - Identifying the potential disaster
 - Assessing the likelihood of it occurring
 - Minimising the potential impact of the crisis
 - Planning for continued operation.
3. Reasons for BP's share price falling 50% might be:
 - A potential future fall in sales and profits because of poor publicity for BP
 - The high cost of cleaning up the area will reduce future profits for BP
 - The cost of government penalties will reduce future profits.
4. The benefits of BP contingency planning for future disasters might be:
 - There is a clear process for BP to follow in a crisis
 - Stakeholders are comfortable that a plan is in place
 - A sense that planning and safety exists throughout the business
 - The worst aspects of the crisis can be managed.

The limitations might be:

- There is a cost to the process and it takes time to produce
- The plan needs to be updated over time
- There is a cost to training employees
- Not all outcomes can be planned for.

Key concept question

The impact of innovation on crisis management and contingency planning includes:

- Use of technology to identify potential disasters
- Development of methods to assess the likelihood of events occurring
- Development of planning methods to minimise the potential impact of a crisis
- How risky innovation may lead to situations where crisis is more likely to occur.



The impact of ethics on crisis management and contingency planning include:

- The responsibility of an organisation to have a contingency plan to deal with a crisis
- How an organisation plans to deal with a crisis and the impact it might have on employees and the local community
- The way the contingency plan is applied in terms of the priorities for different stakeholders.