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# Business management

## Higher level

### Paper 2

24 October 2023

Zone A afternoon | Zone B afternoon | Zone C afternoon

2 hours 15 minutes

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#### Instructions to candidates

- Do not open this examination paper until instructed to do so.
- A clean copy of the **business management formulae sheet** is required for this examination paper.
- Section A: answer one question.
- Section B: answer two questions.
- Section C: answer one question.
- A calculator is required for this examination paper.
- The maximum mark for this examination paper is **[70 marks]**.

## Section A

Answer **one** question from this section.

### 1. Birchie’s Convenience Store Ltd. (BCS)

Fraser Birch is the owner of *Birchie’s Convenience Stores Ltd. (BCS)*. Currently, *BCS* operates two small convenience stores.

*BCS*’s profits have increased each year for the past three years. Fraser wants to expand the business. Expansion should result in economies of scale.

Fraser has identified three options for expansion:

- **Option 1:** Open a new store in a nearby village that currently has no convenience store.
- **Option 2:** Buy a small chain of three convenience stores that are for sale in the nearest city.
- **Option 3:** Continue to research the market for a year before making a decision.

Fraser would need to approach the bank for a long-term loan to help finance **Option 1** or **Option 2**. *BCS*’s gearing ratio is 75%.

The probability that the economy improves over the next year is 0.45, the probability that the economy remains unchanged is 0.25, and the probability that the economy worsens is 0.3.

The forecasted costs and expected revenue for all three options are given in **Table 1**.

**Table 1: Information related to the three options for expansion (all figures in £000s)**

	Forecasted costs	Forecasted revenue if the economy improves	Forecasted revenue if the economy remains unchanged	Forecasted revenue if the economy worsens
<b>Option 1: Open a new store</b>	200	500	200	(100)
<b>Option 2: Buy a chain of three stores</b>	700	1300	800	(150)
<b>Option 3: Continue to research the market</b>	0	120	80	(50)

- (a) Define the term *economies of scale*. [2]
- (b) Using **Table 1**, construct a fully labelled decision tree **and** identify the best option for *BCS* (*show all your working*). [6]
- (c) Explain **one** possible disadvantage for *BCS* of taking out a long-term bank loan to fund either **Option 1** or **Option 2**. [2]

**2. Dan James Delivery (DJD)**

Dan James, a sole trader, has been running *Dan James Delivery (DJD)*, a food delivery service for local restaurants, since 2020. *DJD* is known for fresh and quickly delivered food. The constant growth in demand attracts new competitors. Dan is currently operating at full capacity utilization and would like to expand.

The lease on Dan’s delivery van expires on 31 December 2023. Dan wants to buy a new and larger electric van on 1 January 2024.

**Table 2: Selected information about the new electric van**

Costs	\$50 000
Useful life	5 years
Estimated residual/scrap value	\$3900
Estimated depreciation rate	40 %

- (a) State **two** advantages of leasing. [2]
- (b) Using the straight-line method of depreciation, calculate the book value of the new electric van on 31 December 2025 (*show all your working*). [2]
- (c) Using the reducing/declining balance method of depreciation, calculate for the new electric van:
  - (i) the depreciation allowance for 2024 **and** its book value on 31 December 2024 (*show all your working*); [2]
  - (ii) the depreciation allowance for 2025 **and** its book value on 31 December 2025 (*show all your working*). [2]
- (d) Explain the impact on *DJD*’s profit, for the year ending 31 December 2024, if the reducing/declining balance method of depreciation is used instead of the straight-line method of depreciation. [2]

## Section B

Answer **two** questions from this section.

### 3. Anna’s pet salon

In 2024, Anna Holborn plans to start a new business: a pet grooming salon. Although Anna has no managerial experience, she is eager to work for herself. In Anna’s city, three pet salons already exist. The market is very competitive.



**Table 3: Selected data on the three existing pet salons**

Salon	Prices	Reputation out of four stars (★)	Independent or franchise
<b>A</b>	Medium	★★★	Franchise
<b>B</b>	Low	★	Independent
<b>C</b>	High	★★	Franchise

Anna is considering two options for opening her salon:

- **Option 1:** Open it as an independent business, called *AH Salon*.
- **Option 2:** Open it as a franchise of *Paws Boutique (PB)*, a nationwide chain of pet grooming salon franchises that currently has no franchise in Anna’s city.

**Table 4: Anna’s forecasted initial costs of starting a pet salon as an independent business (Option 1) or as a PB franchise (Option 2)**

	Option 1: As an independent business	Option 2: As a PB franchise
Equipment	\$15 000	\$12 000
Grooming supplies	\$10 000	\$10 000
Initial local promotion	\$5 000	\$2 000
Legal fees	\$2 000	\$4 000
Purchase of franchise	Not applicable	\$10 000
Total	\$32 000	\$38 000

If Anna buys a *PB* franchise, she must pay 5% of revenue to the franchiser. The franchiser will pay for regional and national – but not local – promotion. Anna must purchase equipment from the franchiser. In other cities, *PB* franchises are rated medium in terms of price and ★★ in terms of reputation.

Anna has limited financial resources. She has prepared a forecast for the first year. She forecasts, as a *PB* franchise, an average of 200 pet grooming services per month at a price of \$30. As an independent business, she forecasts that sales would be 10% lower. For both options, fixed costs, including her salary, would be \$2800 per month. Variable costs would be \$5 per pet grooming.

**(This question continues on the following page)**

**(Question 3 continued)**

- (a) Define the term *variable costs*. [2]
- (b) Using **Table 3**, construct a product position map/perception map of the three existing pet salons. [4]
- (c) Explain **two** problems that Anna may encounter when starting a new business. [4]
- (d) Recommend whether Anna should open her pet salon as an independent business (**Option 1**) or as a *PB* franchise (**Option 2**). [10]

#### 4. Vegan Supplies (VS)

Five years ago, Michael Thompson opened *Vegan Supplies (VS)* as a vegan food\* wholesaler selling to the restaurant industry. Two years ago, *VS* also began producing its own range of high-quality vegan food. *VS*'s vegan product range includes cheese and burgers, kebabs and sausages. Michael built *VS*'s customer base for this product range by frequent attendance at trade exhibitions. *VS* mostly employs staff who are vegan, and Michael has a broad objective of promoting veganism. *VS*'s vision statement is "to build a vegan world". Michael encourages an organizational culture designed to promote vegan philosophy and lifestyles.

A total of 60% of *VS*'s sales are products purchased for resale, and the remaining 40% of sales are from *VS*'s own vegan product range. However, sales of the *VS* brand vegan foods from their own production are increasing, and Michael is keen to see this trend continue.

Michael works closely with suppliers and restaurants to provide the products that restaurants want. *VS* mainly uses below-the-line promotion to market their products. *VS*'s quality control inspector is approaching retirement, and Michael is considering whether to keep a system of quality control or move to a system of quality assurance. He is aware that changes must be made to operate a system of quality assurance, such as total quality management (TQM). Michael must convince employees that the move to quality assurance is worthwhile. Giving employees responsibility for their own working may prove challenging. Michael plans to invest in different training methods to ensure the change works effectively.

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\* vegan food: food that does not contain animal products, including meat, dairy, and eggs

- (a) Define the term *objective*. [2]
- (b) With reference to *VS*, explain **two** elements of organizational culture. [4]
- (c) Explain **one** advantage **and one** disadvantage for *VS* of using below-the-line promotion. [4]
- (d) Recommend whether Michael should move from a system of quality control to a system of quality assurance. [10]

## 5. Ultimate Warrior Gym PLC (UWG)

*Ultimate Warrior Gym PLC (UWG)* has 212 gyms nationwide. Ali Smith is the chairman and majority shareholder. *UWG*'s business model involves providing high-tech equipment and employing personal trainers (PTs). In the past, *UWG* has struggled to recruit well-qualified PTs. *UWG* encourages its gym managers to be intrapreneurs.

*UWG* is competitively priced, offers monthly contracts, and is open 24 hours a day, seven days a week. *UWG* uses social media marketing, including online forums. Through these forums, many members and PTs have formed friendships that give membership a rewarding social dimension. 95% of *UWG*'s members renew their monthly contract.

PTs are paid minimum wage but are allowed to organize private training sessions with *UWG*'s members. Consequently, it is common for only one member of staff to be on duty at a time. Recently, a gym member was seriously injured while lifting inappropriate weights unsupervised.

The accident was a news item in the national media and required a crisis management response. Ali immediately recorded a video and posted it to *UWG*'s social media platforms. Apologizing for the accident, he announced that the PT contracts will be changed and they will no longer be allowed to arrange private training sessions. Ali also offered compensation to the person who was injured. However, an image mocking *UWG* was shared 50 000 times on social media.

The crisis management response pacified investors, but 30 % of the PTs are conducting strike action, and some gyms have had to close due to a lack of employees. Comments on *UWG*'s online forums indicate that most members sympathize with the PTs.

Ali is considering which industrial/employee relations methods *UWG* could use to get the PTs to accept a new contract.

- (a) Define the term *intrapreneur*. [2]
- (b) With reference to *UWG*, explain **two** reasons why Ali's crisis management response may have been effective. [4]
- (c) Explain **one** advantage **and one** disadvantage for *UWG* of using social media marketing. [4]
- (d) Evaluate **two** industrial/employee relations methods that *UWG* could use to get the PTs to accept a new contract. [10]

## Section C

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

6. With reference to an organization of your choice, discuss the impact of **ethics** and **globalization** on human resource management. [20]
7. With reference to an organization of your choice, discuss the impact of **culture** and **innovation** on operations management. [20]
8. With reference to an organization of your choice, discuss the impact of **change** on marketing **strategy**. [20]

*Companies, products, or individuals named in the stimuli are fictitious and any similarities with actual entities are purely coincidental.*

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### References:

3. BONDART, n.d. *Professional male groomer making haircut of poodle teacup dog at grooming salon with professional equipment - stock photo*. [image online] Available at: <https://www.gettyimages.co.uk/detail/photo/professional-male-groomer-making-haircut-of-poodle-royalty-free-image/1407302298?adppopup=true> [Accessed 9 March 2023]. Source adapted.