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Business management

Standard level

Paper 2

24 October 2023

Zone A afternoon | **Zone B** afternoon | **Zone C** afternoon

1 hour 45 minutes

Instructions to candidates

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

Section A

Answer **one** question from this section.

1. Dryed Ltd. (DD)

Dryed Ltd. (DD) manufactures electric kettles. In the final quarter of 2021, *DD* invested in new production facilities in its factory to produce a new and improved kettle. This kettle, using 25 % less electricity than competitor products, went on sale in January 2022.

Because competitors would take 12 months to launch a similar product, *DD* adopted a price-skimming strategy for the new kettle. However, sales of the new kettle in 2022 were 15 % lower than *DD* had forecast.



Table 1: Selected financial information for *DD* for the years ending 31 December 2021 and 31 December 2022 (all figures in \$000s)

	2021	2022
Cash	30	25
Cost of goods sold	2100	2300
Dividends	28	30
Expenses	1200	1300
Fixed assets	1075	1275
Gross profit	X	2350
Interest	10	10
Net profit before interest and tax	Y	Z
Sales revenue	4300	4650
Stock	300	350
Tax	121.1	140

Table 2: Selected financial ratios for *DD* at 31 December 2021 and 31 December 2022

	2021	2022
Acid test (quick) ratio	1	0.9
Current ratio	1.5	1.6

- Define the term *price skimming*. [2]
- In **Table 1**, calculate the values of **X**, **Y** and **Z** (*no working required*) [3]
- Using relevant information from **Table 1**, construct a fully labelled profit and loss account for *DD*, for the year ending 31 December 2022. [3]
- Referring to the information in **Table 1** and **Table 2**, explain the change in *DD*'s liquidity between 2021 and 2022. [2]

2. MotorZycle (MZ)

MotorZycle (MZ), a manufacturer of motorcycle transmissions, is seeking to establish a strategic alliance with a spare parts dealer.

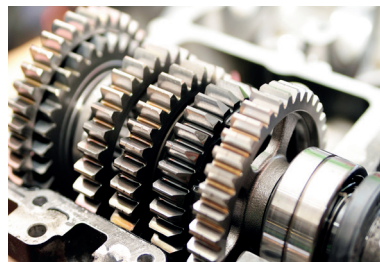


Table 3: Forecast fixed costs for MZ for 2024

Rent	\$60 000
Marketing	\$80 000
Administrative expenses	\$20 000

Table 4: Forecast variable costs per motorcycle transmission for 2024

Components	\$800
Direct labour	\$200

MZ sells motorcycle transmissions for \$3000 per unit.

MZ has forecasted sales of 160 motorcycle transmissions in 2024.

- (a) Define the term *strategic alliance*. [2]
- (b) Calculate, for MZ, the break-even quantity/point for 2024 (*show all your working*). [2]
- (c) Construct a fully labelled break-even chart, to scale, for MZ, for 2024. [4]
- (d) Explain the impact on MZ's margin of safety if motorcycle transmissions are sold for \$2000 per unit and all costs remain the same. [2]

Section B

Answer **one** question 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 5: Selected data on the three existing pet salons

Salon	Prices	Reputation out of four stars (★)	Independent or franchise
A	Medium	★★★	Franchise
B	Low	★	Independent
C	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 6: 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 <i>PB</i> 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 5**, 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. WindJam (WJ)

In 1998, major camping equipment manufacturers considered eco-friendly products a niche market. Cameron Harris saw an opportunity, however, and founded *WindJam* (WJ), a private limited company that manufactures eco-friendly camping equipment. Cameron owned 100 % of WJ's shares. WJ's vision statement is, "Promoting environmental experiences while protecting the environment."

WJ's eco-friendly camping equipment is expensive. Since 1998, the popularity of eco-friendly products increased, and WJ's sales have grown every year.

In 2014, WJ sold new shares to family members. With a long working capital cycle and increasing sales, WJ needed more working capital. This need was heightened when one supplier reduced its credit terms from 60 days to 30. The funds from the sale of the new shares increased WJ's working capital. Cameron now owned 70 % of WJ.

Initially, WJ faced limited competition, but the market began to change. Many large manufacturers are now developing eco-friendly camping equipment. Some large manufacturers use a loss leader pricing strategy, whereas other large manufacturers use a penetration pricing strategy. One competitor has also offered tents at prices that, Cameron suspected, were lower than production costs.

In 2023, WJ must compete more effectively. Cameron has two options:

- **Option 1:** Convert WJ to a public limited company, which could raise \$10 000 000. With additional finance in the form of a bank loan, this amount would be enough to build a modern, sustainable factory and fund additional working capital. Cameron's ownership of the company would fall to 30 %.
- **Option 2:** Outsource all manufacturing to developing countries, where costs are lower. The sale of WJ's existing factory could be used for additional working capital.

- (a) Define the term *niche market*. [2]
- (b) Explain why WJ regularly needs more working capital. [4]
- (c) With reference to WJ's new competitors, explain the terms "penetration pricing" and "loss leader". [4]
- (d) Recommend whether Cameron should choose **Option 1** or **Option 2**. [10]

5. Mattie Eats (ME)

Mattie Eats (ME) is a small fast-food chain selling a range of products. Between 2017 and 2021, *ME* expanded into small local towns.

Table 7: Information on *ME*'s core products in the local fast-food market

Year of launch	Core product	Other information about the product and the markets
2017	Traditional beef burgers	Was very profitable. Currently has a low market share in a declining market. It is a loss-making product. Social marketing by the government reduced demand.
2018	Roasted organic potatoes	Currently very profitable, with a high market share. Market growth is low.
2019	Low-fat, 100 % organic beef burgers	Was a very successful product. Has a high market share, but the market is maturing/saturating rapidly. The product breaks even.
2020	Vegan* burgers	A commercially successful product. Has a high market share in a mature/saturated market. Profit is levelling off.
2021	Vegan pancakes	Has a very low market share in a highly mature/saturated market. It has not been a commercial success.

Overall *ME* has been profitable, but its profits started to fall in 2020. The chief executive officer (CEO) is concerned about the future.

The competition in the vegan fast-food industry is intense. Consumers see the products as undifferentiated and demand value for money. Last year, *ME* increased its above-the-line promotion to attract more customers.

In 2024, *ME* will launch a 100 % vegan drink aimed at health-conscious consumers. A loss leader pricing strategy will be used.

* vegan: food and other products that do not contain animal products, including meat, dairy, and eggs

- (a) Define the term *social marketing*. [2]
- (b) Using the Ansoff matrix, explain **two** of *ME*'s growth strategies. [4]
- (c) Explain **one** advantage **and** **one** disadvantage for *ME* of using a loss leader pricing strategy for the new product that will be launched in 2024. [4]
- (d) Using the Boston Consulting Group (BCG) matrix, evaluate *ME*'s core product range. [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, examine the impact of **globalization** on operations management **strategy**. [20]
7. With reference to an organization of your choice, examine the impact of **culture** on **ethics**. [20]
8. With reference to an organization of your choice, examine the impact of **innovation** on **change** in human resource management. [20]

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

References:

1. gerenme, n.d. *Kettle - stock photo*. [image online] Available at: <https://www.gettyimages.co.uk/detail/photo/kettle-royalty-free-image/891596906?phrase=kettle&adppopup=true> [Accessed 14 March 2023]. Source adapted.
2. loraks, n.d. *Gear set. - stock photo*. [image online] Available at: <https://www.gettyimages.co.uk/detail/photo/gear-set-royalty-free-image/478199195?phrase=motorcycle+transmission&adppopup=true> [Accessed 17 May 2023]. Source adapted.
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.