

Business and management
Higher level
Paper 1

Thursday 19 November 2015 (afternoon)

2 hours 15 minutes

Instructions to candidates

- Do not open this examination paper until instructed to do so.
- A clean copy of the **business and management case study** is required for this examination paper.
- Read the case study carefully.
- Section A: answer two questions.
- Section B: answer the compulsory question.
- Section C: answer the compulsory question.
- A calculator is required for this examination paper.
- Clean copies of the **business and management formulae sheet and discount tables** are required for this examination paper.
- The maximum mark for this examination paper is **[80 marks]**.

Section A

Answer **two** questions from this section.

1. (a) Describe **one** way in which a problem with quality control (line 115) could affect *LadyA*. [2]
(b) With reference to *LadyA*, describe **one** reason for identifying target markets. [2]
(c) Explain **one** benefit to the local school **and one** benefit to Mrs Carroccio, of providing training for Mrs Carroccio (line 13). [4]
(d) Analyse the impact of technological change on Alejandra and her business. [7]
2. (a) Describe **one** method of primary market research **and one** method of secondary market research that could be useful to *LadyA*. [4]
(b) With reference to Mr Carroccio, explain **two** reasons for setting up a business. [4]
(c) Analyse the importance of branding for Alejandra. [7]
3. (a) Describe **two** benefits, to Mr Carroccio, of owning his shoe repair business as a sole trader. [4]
(b) Using the **additional information below**, calculate:
 - (i) the average rate of return (ARR), for setting up Mr Carroccio's shoe repair business (*show all your working*); [2]
 - (ii) the payback period, for setting up Mr Carroccio's shoe repair business (*show all your working*). [2]
(c) Using your answers to part (b) and information contained in the case study, analyse the issues that Mr Carroccio faced when he set up his shoe repair business. [7]

Additional information

Selected data for setting up Mr Carroccio's shoe repair business:

- Set-up cost: \$9000
- Net returns per year for 5 years: \$3000

Section B

Answer **the compulsory** question from this section.

4. (a) “The production of *LadyA* perfume and cosmetics was outsourced” (lines 113–114). Describe **two** advantages to *LadyA* of outsourcing. [4]
- (b) Explain **two** reasons why Alejandra’s objectives might have changed over time. [4]
- (c) Explain **two** difficulties in valuing *LadyA*’s financial assets. [4]
- (d) Evaluate **Option 1** (lines 139–146) as a strategic option for *LadyA*. [8]

Additional information

There is no additional information in this paper for Section B.

Section C

Answer **the compulsory** question from this section.

5. Gavin Pratt has been appointed as *LadyA*'s International Marketing Director (Item 1). He was selected for his excellent sense of style and his knowledge of the *LadyA* brand. However, he has limited marketing experience.

Alejandra decided to reject **Option 1** and **Option 3**. She identified two strategies for implementing **Option 2** (lines 147–152). The new products would be manufactured using the same manufacturer in Malaysia that produces *LadyA*'s perfume and cosmetics. **Option 2** would require the introduction and use of business-to-customer (B2C) e-commerce distribution channels. Sales generated through B2C e-commerce are growing rapidly (Item 2).

- **Implementation strategy A, (Option 2 through internal growth):** create an entirely new marketing department for *LadyA*. The marketing department would organize international promotion for *LadyA* products, set up distribution channels and negotiate with international agents, wholesalers and major retailers around the world. Once the global brand is developed, the marketing department would develop B2C e-commerce.
- **Implementation strategy B, (Option 2 through external growth):** take over *Fabco*, an international marketing business. *Fabco* has proven experience in organizing international promotion which could be applied to *LadyA* products. *Fabco* already has distribution channels with international agents, wholesalers and retailers outside the United States (US), and has experience in developing and using B2C e-commerce. However, *Fabco* has recently been accused of some unethical business practices (Item 3), and has never worked with media stars such as *LadyA*.

Alejandra asked Gavin to research both implementation strategies so that she can make a decision as soon as possible. As part of Gavin's research he has obtained some financial data from *Fabco* (Item 4).

- (a) Identify **two** features of a wholesaler. [2]
- (b) Using relevant data from Item 4, calculate the acid test (quick) ratio **X**, for **2014** (*no working required*). [1]
- (c) Using Item 4 **and** your answer to part (b), comment on the changes in *Fabco*'s liquidity. [6]
- (d) Analyse the relationship between the product life cycle, investment and the likely profits for *LadyA*. [9]
- (e) Using information contained in the case study **and** Items 1–4, recommend whether Alejandra should choose strategy A **or** strategy B in order to implement **Option 2**. [12]

(Additional information is on the following pages)

Additional information**Item 1: Social networking responses to Gavin Pratt's appointment**

LadyA: News flash!!! Gavin is my new International Marketing Director!!!!!!!!!!!!!!

Gavin: Wow what an opportunity!!! We will conquer the world :-)

Fashion journalist: How could someone like Gavin, with no marketing experience, be given this opportunity?

Financial journalist: He helped make *LadyA* a sensation in the US – now the world!

Anonymous (*LadyA* employee): If you think *LadyA* is difficult to work with, wait until you meet Gavin! :-)

Item 2: B2C e-commerce sales worldwide, 2012–2017 (in \$ billions)

	2012	2013	2014	2015	2016	2017
Asia-Pacific	301	384	525	681	856	1053
North America	380	431	483	538	598	660
Europe	319	362	405	447	483	518
South America	38	48	58	65	71	75
Middle East and Africa	21	27	34	40	46	51
Total	1059	1252	1505	1771	2054	2357

[Source: Data: www.emarketer.com]

Item 3: News report on *Fabco*, 1 December 2014

This year, *Fabco*'s performance has been outstanding in Asia. Sales and profits have grown faster than many similar businesses in the region. Strong performance in Asia has enabled *Fabco* to negotiate a business relationship with *The Cathy Group*, a large chain of retail stores in Asia.

However, concern is growing that *Fabco*'s business practices are not always ethical. *Fabco* sometimes ignores minimum wages and has suppliers who do not practice corporate social responsibility (CSR).

Customers are showing a very high level of satisfaction with *Fabco*. However, some *Fabco* customers in Europe have reported problems with their online orders and accounts.

(Additional information continues on the following page)

(Additional information continued)

Item 4: Select financial data for *Fabco*

	2012	2013	2014
Sales revenue (Europe) (\$m)	50	45	40
Sales revenue (Asia) (\$m)	15	20	30
Sales revenue (South America) (\$m)	20	20	22
Net profit margin (%)	50	40	30
Current assets (\$m)	3.4	5.0	6.0
Current liabilities (\$m)	2.0	3.3	4.6
Stock (\$m)	1.4	2.0	5.0
Current ratio	1.7	1.5	1.3
Acid test (quick) ratio	1.0	0.9	X
Gearing ratio (%)	70	75	80
Return on capital employed (ROCE) (%)	15	10	7
