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Business management
Higher level
Paper 2

Monday 6 May 2019 (morning)

2 hours 15 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 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. Las Migas

Carolina plans to set up a bakery, *Las Migas*, in a small town. Competition from established bakeries is strong. Carolina has asked for a bank loan because her personal savings are insufficient. The bank manager requested the following information:

- a business plan
- a cash flow forecast for the first four months of operations.

Carolina has no experience with financial forecasts but she estimated the figures for *Las Migas* for the first four months of operations. These figures are shown in **Table 1**.

Table 1: Estimated figures for *Las Migas* for the first four months of operations

Estimated sales per month	For the first two months of operations: \$1500 From the third month of operations onwards: \$3500
Monthly rent	\$1000
Interest	\$45 to be paid every two months starting the first month of operation
Opening balance	\$100
Ingredients and supplies	30 % of sales
Electricity per month	1 % of sales
Carolina's monthly salary	\$390

[Source: © International Baccalaureate Organization 2019]

- (a) State **two** elements, **other than** a cash flow forecast, of a business plan. [2]
- (b) Prepare a cash flow forecast for *Las Migas* for the first four months of operations. [6]
- (c) Explain **one** problem that *Las Migas* may experience as a new business. [2]

2. Enjuice

Enjuice produces canned juices. The market for canned juices is very competitive. Each can is sold at \$8. *Enjuice*'s profit margins are falling. The marketing manager has conducted primary market research and suggested increasing advertising to increase sales. In 2018 *Enjuice* sold 360 000 cans.

Table 1: Selected financial information for 2018 (all figures in \$000s)

Administration expenses	226
Cost of goods sold	2440
Current assets	500
Current liabilities	400
Debtors	300
Dividends	120
Interest	40
Marketing expenses	14
Sales revenue	X
Tax 10 %	Y

[Source: © International Baccalaureate Organization 2019]

- (a) State **two** methods of primary market research. [2]
- (b) Using the information provided above and in **Table 1**:
- (i) calculating **X** and **Y**, construct a profit and loss account for *Enjuice*; [5]
- (ii) calculate the gross profit margin (*no working required*). [1]
- (c) Explain **one** strategy that *Enjuice* could use to increase its gross profit margin. [2]

Section B

Answer **two** questions from this section.

3. JP

JP produces electric guitars. It is a cooperative owned by a committed workforce who share in the management and success (or failure) of the company and its profits. Workers enjoy having control over the workplace and are productive. However, *JP*'s continued success is threatened by insufficient finance, which prevents them from spending more on traditional promotional methods.

JP's guitars are expensive relative to the competition but are known for their quality. Its customers are very brand loyal. The use of social media marketing by many famous musicians influences *JP*'s brand loyalty and awareness. Unfortunately for *JP*, one especially famous musician using a *JP* guitar on social media recently received negative publicity about his private life.

JP follows strict quality procedures that include quality circles. *JP*'s management believe that teams of workers employed on the production line know the production process best and are in the best position to make any necessary improvements. Staff turnover at *JP* is very low.

XYZ, a large company known for its kitchen appliances, is considering moving into the musical instrument market as part of a growth strategy – they want the high gross profit margins on guitars (compared to the low profit margins on kitchen appliances). *XYZ* wants to take over *JP*. *XYZ* has a strong balance sheet and large cash reserves and is an expert at marketing.

The cooperative has refused to consider the takeover bid from *XYZ*. The cooperative has argued that the culture of *XYZ* is too different to *JP*'s. *XYZ*'s management are viewed as too controlling. However, increased price competition has led to falling sales, forcing *JP* to make redundancies. Some cooperative members argue that unless *JP* accepts *XYZ*'s bid, additional jobs will be lost.

[Source: © International Baccalaureate Organization 2019]

- (a) Define the term *cooperative*. [2]
- (b) Explain **one** positive **and one** negative impact of social media marketing on *JP*'s promotional strategy. [4]
- (c) Explain **two** benefits to *JP* of using quality circles. [4]
- (d) Discuss whether *JP* should accept *XYZ*'s takeover bid. [10]

4. The Warriors

The Warriors are a soccer* club who perform well but have not won any trophies. Recently, *The Warriors* have had above average turnover of managers, increasing time spent on recruitment. Player turnover has also been higher than that of other clubs.

Dave Atkinson, owner and former player, is an autocratic leader who denies blame for the high manager and player turnover. He publicly criticizes players. However, fans adore Dave. He was a successful player, supports the fans and is committed to corporate social responsibility (CSR). He has:

- reduced ticket prices to the lowest in the league
- provided free, healthy snacks for junior supporters
- donated 20% of *The Warriors'* profits to local schools to encourage young people to play sport.

After a recent poor performance, Dave demanded that all players donate 50% of their pay for that match to good causes. Two new players used social media to complain. In response, Dave threatened to cancel their contracts. The other players refused to turn up for training to show solidarity. Dave then locked the players out of the stadium.

This controversy comes at a critical time for *The Warriors*. With a dynamic new manager, they have their first chance to win an important final and with it significant financial gain, which is needed to support corporate social responsibility (CSR) and upgrade spectator facilities. On social media, the fans have asked Dave not to enforce the lock-out.

Dave wants to resolve the conflict and privately regrets the lock-out. He is angry with the team but wants to increase *The Warriors'* corporate social responsibility (CSR). Without wishing to appear as a weak leader, he asked another popular former player for advice.

[Source: © International Baccalaureate Organization 2019]

* soccer: football

- (a) Outline **two** features of autocratic leadership. [2]
- (b) Explain **one** cost **and one** benefit of a high labour turnover of managers for *The Warriors*. [4]
- (c) Explain **one** cost **and one** benefit to *The Warriors* of committing to corporate social responsibility (CSR). [4]
- (d) Discuss **two** methods to resolve conflict for *The Warriors* **other than** a lock-out. [10]

5. Copper Health (CH)

Copper Health (CH) was the market leader in the production of anti-venom* vaccines to treat poisonous snake bites. *CH*'s mission – influenced heavily by corporate social responsibility (CSR) – is to put customers first and profits second in the treatment of snake bites.

Despite 100 000 deaths worldwide each year from snake bites and 400 000 serious injuries, *CH* recently announced that it will no longer produce anti-venom vaccines. Several large Mexican, Brazilian and Indian pharmaceutical companies have entered the market selling anti-venom vaccines at a much lower price than *CH*.

A spokesperson for *CH* said: “We will remain a private limited company where corporate social responsibility (CSR) remains an important driving force for our mission. Our medical research is only financed from retained profit. When the lower-priced competition arrived, our sales and profits of anti-venom vaccines decreased significantly. Treating snakebites no longer makes financial sense. Instead, the technology used to produce anti-venom vaccines will be used to research and develop (R&D) other life-saving vaccines”.

A non-governmental organization (NGO) has demanded action. “*CH* is the largest manufacturer of anti-venom vaccines in the world. Although *CH*'s competitors are increasing their production of anti-venom vaccines they will not be able to produce enough to satisfy demand for the next two years. There will be a major shortage. This will result in many life-threatening injuries and deaths.”

The non-governmental organization (NGO) has urged *CH* to seek new sources of finance to continue the production of the anti-venom vaccine.

[Source: © International Baccalaureate Organization 2019]

* anti-venom: a medication made from antibodies that is used to treat venomous bites and stings

- (a) Define the term *retained profit*. [2]
- (b) Explain **one** advantage **and one** disadvantage for *CH* of having a mission statement. [4]
- (c) Explain **two** possible external sources of finance *CH* could use to continue production of anti-venom vaccines. [4]
- (d) Discuss *CH*'s decision to stop producing anti-venom vaccines. [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 ways in which **ethics** can influence **innovation** in an organization. [20]

 7. With reference to an organization of your choice, examine the impact of **culture** on organizational **strategy**. [20]

 8. With reference to an organization of your choice, discuss the ways in which **globalization** can influence organizational **change**. [20]
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