Diploma Programme
Programme du diplôme
Programa del Diploma

Business management
Standard level
Paper 2

1 May 2023

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

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. Make-Up (MU)

Lana Lane is an image coach and plans to open *Make-Up* (*MU*), a shop where she can sell her own brand of beauty products. Because Lana is a female entrepreneur, her local government will pay 50 % of the rent for the space in which *MU* will operate.

Lana has forecasted the following figures for *MU* for the first six months of operation, beginning on 1 July 2023 (see **Table 1**). The opening balance will be $0.

Table 1: Figures for the first six months of operation, beginning on 1 July 2023

Rent per month		$1000
Government payment toward rent per month		$500
Salary per month		$1200
Electricity (payable every second month starting in August)		$200
Cleaning supplies per month		$100
Sales revenue per month	July	$4000
	August	$4000
	September	$3500
	October	$3500
	November	$4000
	December	$4500
Purchases per month		40 % of sales

Lana has learned that a new competitor with lower prices will enter the market before the end of 2023.

(a) State **two** characteristics of an entrepreneur. [2]

(b) Using the information in **Table 1**, prepare a monthly cash-flow forecast for *MU* for the first six months of operation. [6]

(c) Comment on the possible impact of the new competitor on *MU*'s cash flow. [2]

2. Windmills OPQ (WO)

Windmills OPQ (*WO*) develops and produces electrical and mechanical components for windmills. *WO* has developed a unique selling point/proposition (USP) because of its customization and modification services.

In 2023, *WO* identified two six-year investment project options that could be beneficial.

- **Option 1**: Research and development (R&D).
- **Option 2**: Open a wind farm with five windmills.

The capital costs and forecasted cash flows for both investment projects are shown in **Table 2**.

Table 2: Capital costs and expected cash flows for both investment projects (all figures in $000s)

Investment project	Capital costs	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Total cash inflows
Option 1: R&D	–9600	0	0	2500	4600	5000	5500	17 600
Option 2: Open a wind farm	–9000	1500	2000	2500	3000	3000	4000	16 000

WO's board of directors think that the forecasted cash flow for **Option 2** is too low. They believe that the demand for electricity generated by windmills is likely to rise more than the current forecast assumes. Electricity prices are also increasing.

(a) Define the term unique selling point/proposition (USP). [2]

(b) Using relevant information from **Table 2**, calculate:

(i) the average rate of return (ARR) for **Option 1** (*show all your working*); [2]

(ii) the average rate of return (ARR) for **Option 2** (*show all your working*); [2]

(iii) the payback period for **Option 1** (*show all your working*). [2]

(c) Comment on whether *WO* should choose **Option 1** or **Option 2**. [2]

Section B

Answer **one** question from this section.

3. EkoLogiczne Ltd. (EL)

EkoLogiczne Ltd. (*EL*) is a packaging company owned 60 % by Marek Kowalski and 40 % by his father. *EL* is a private limited company. Marek founded the company when he realized that the rise in e-commerce would mean the demand for packaging would always increase.

Originally, Marek imagined that *EL*'s unique selling point/proposition (USP) would be to offer recyclable packaging. However, the eco-friendly market was dominated by one large company, *Big Boxes* (*BB*), which enjoyed economies of scale. Marek reimagined his USP: *EL* would have small factories that enabled customized orders to be fulfilled quickly.

Over time, *EL* opened four factories across Poland and the Czech Republic. Its customers, which included online retailers and small manufacturing companies, placed orders online; if the factory nearest the customer was too busy with other orders, the order would be shifted to another factory. Many customers chose *EL* rather than *BB* for this reason. With growth, however, *EL* began to experience diseconomies of scale and increasingly failed to fulfil orders on time.

Marek is now considering bidding on a large five-year contract for all the packaging solutions for *WszystkoMart* (*WM*), a huge traditional retailer trying to expand its e-commerce presence. The contract would require building a huge factory and focusing almost exclusively on keeping costs low. In terms of scale, *EL* would be almost as big as *BB*, the large company dominating the eco-friendly packaging market.

To finance the new factory, Marek would either have to sell many shares and reduce his and his father's combined ownership to 40 % or take a 30-year loan from a bank.

(a) State **two** features of e-commerce. [2]

(b) Explain **one** advantage **and one** disadvantage for *EL* of having a unique selling point/ proposition (USP). [4]

(c) Explain **two** diseconomies of scale that *EL* may have experienced. [4]

(d) Discuss whether *EL* should enter into the contract with *WM* if they have the winning bid. [10]

4. Les Amis PLC (LA)

Les Amis PLC (*LA*) is a public limited company that sells casual clothes for men. Its target market is high-income professionals who value a personalized sales service. *LA* has developed brand awareness and operates 42 shops around the country. It owns 10 of these shops and leases the remaining 32. *LA* employs 950 people, who receive a higher wage than the industry average. *LA* also pays commission to sales staff working in the shops. *LA*'s organizational culture values the wellbeing and needs of its employees. Labour turnover is very low.

Recently, *LA* launched an online shop. Since then, online sales have increased considerably, while sales in *LA*'s physical shops have fallen. Shareholders want *LA* to close all its physical shops and sell online only. However, many of the employees will be made redundant if the physical shops are closed.

LA's current chief executive officer (CEO), Marie Brossard, has a democratic leadership style, and she regularly meets with employees and encourages feedback. *LA*'s managers and employee representatives have never had a conflict. Marie plans to discuss the shareholders' desire to close *LA*'s physical shops with all the shop managers.

Customer returns of clothing orders at *LA* have increased substantially. Most returns are from online customers unfamiliar with *LA*'s clothing sizes. Marie has consulted the e-commerce department on how to reduce the increasing cost of returns, and they have suggested investing in expensive software that will enable online customers to find their correct clothing size.

(a) Define the term *target market*. [2]

(b) Explain **one** advantage **and one** disadvantage for *LA* of paying commission to sales staff working in its shops. [4]

(c) Explain **one** advantage **and one** disadvantage for *LA* of Marie's democratic leadership style. [4]

(d) Discuss whether *LA* should close all its physical shops and sell only online. [10]

5. Justin Price Clothing Ltd. (JP)

Justin Price Clothing Ltd. (*JP*) is a private limited company that manufactures clothing. Its unique selling point/proposition (USP) is its innovative process. Customers send images of themselves and some measurements to *JP* via the internet, which *JP* uses to determine the customer's exact measurements. Then, a style consultant contacts the customer via video conference to discuss the customer's fashion preferences. After this, the style consultant designs clothing for that customer. Using job/customized production, *JP* manufactures and ships the clothing to the customer. Most materials (stock) are ordered when a customer agrees to the designs. A total of 84 % of *JP*'s customers have purchased items from *JP* more than five times.

Table 3: Selected financial information for the year or at year's end 2020, 2021 and 2022

	2020	**2021**	**2022**
Net profit margin	5.0 %	4.0 %	3.2 %
Current ratio	1.3	1.1	0.9
Loan capital	$1 400 000	$1 200 000	$1 000 000

Justin Price, *JP*'s owner, asked his management team to consider two options and decide which would best increase profitability:

- **Option 1**: Change *JP*'s design and production model. Consultants, when working with customers online, would recommend from a series of pre-made options. The company would shift to batch production and have the stock (inventory) available. Style consultants would still be central to the process, but the clothing would no longer be custom made.
- **Option 2**: Increase *JP*'s customer base. *JP*'s customers have high brand loyalty. However, the brand is not very well known. *JP* would open several strategically located retail stores in a few major cities to increase brand awareness. In the store, customers could get their measurements taken and receive in-person fashion advice from a fashion consultant, after which they could purchase unique clothing. *JP* would continue its online services.

(a) State **two** features of loan capital. [2]

(b) With reference to *JP*, explain the differences between job/customized production and batch production. [4]

(c) With reference to *JP*, explain Justin's leadership style. [2]

(d) With reference to *JP*, explain the term *brand loyalty*. [2]

(e) Discuss the two options that Justin has suggested. [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 **change** can influence marketing **strategy**. [20]

7. With reference to an organization of your choice, examine the impact of **innovation** on business **ethics**. [20]

8. With reference to an organization of your choice, examine the impact of **globalization** and **culture** on human resource management. [20]

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

References:

2. Wind turbines, Carno Wind Farm. Image by Philip Halling. https://commons.wikimedia.org/wiki/File:Wind_turbines,_Carno_Wind_Farm_-_geograph.org.uk_-_1909021.jpg. Under copyright and licensed under the Creative Commons Attribution-ShareAlike 2.0 Generic (CC BY-SA 2.0). https://creativecommons.org/licenses/by-sa/2.0/deed.en.