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Business management

Higher level

Paper 2

Tuesday 27 October 2020 (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. Jill's Jeans (JJ)

Jill created *Jill's Jeans*, which operates as a sole trader. *JJ* makes custom-design jeans. Jill designs all the jeans and sells them online and at local markets.

Because of increasing demand in 2020, *JJ* has benefitted from economies of scale.

Table 1: Budgeted and actual figures for the year ending 31 October 2020

	Budgeted figure (\$)	Actual figure (\$)
Cost of goods sold	3000	2500
Expenses	1000	800
Sales revenue	5000	4000

- (a) State **two** features of a sole trader. [2]
- (b) Using information in **Table 1**, for *JJ*, prepare:
 - (i) a profit and loss account for the budgeted figures **and** the actual figures (*show all your working*); [3]
 - (ii) a variance analysis (*show all your working*). [3]
- (c) Explain **one** possible economy of scale from which *JJ* has benefitted. [2]

2. Beautiful Benches (BB)

Dan, a young entrepreneur, is planning to start his own small business making hand-made wooden garden benches – *Beautiful Benches (BB)*.

Table 2: Forecasted sales revenue for *BB* for the first four months of operation, starting 1 January 2021 (all figures in \$)

January	2000
February	1000
March	2500
April	3000



To be competitive, *BB* offers its customers credit. They pay 50% when they buy a bench and 50% one month later.

Table 3: Selected forecasted financial information for *BB* for 2021 (all figures in \$ and per month unless stated otherwise)

Rent	400 per month, payable in advance every three months, starting 1 January 2021
Administration/Dan’s salary	1500
Marketing	200
Cost of sales	60% of the same month’s sales revenues. <i>BB</i> will receive one month of credit from the suppliers
Support for young entrepreneurs provided by the local government	150
Utilities	180
Agreed loan	3000 in the fourth month of operation only
Tools/machinery	1000 in the first month of operation only

Dan was advised to pay close attention to *BB*’s working capital cycle.

- (a) Define the term *working capital cycle*. [2]
- (b) Prepare a monthly cash flow forecast for *BB* for the first four months of operation. [6]
- (c) Explain **one** strategy that *BB* could use to significantly improve its forecasted cash flow for January 2021. [2]

Section B

Answer **two** questions from this section.

3. MusiCology

MusiCology (MC) is a private limited company. Rob, the chief executive officer (CEO), founded it to encourage young people to play musical instruments, believing that too many young people either prefer to just listen to music or are abandoning traditional methods of making music in favour of generating it on computers. *MC*'s mission statement is: “*MusiCology* supports the playing of real music by real musicians on real instruments.” The business relies heavily on social media.

MC offers downloadable online lessons and demonstrations prepared by professional musicians. Some of the lessons and demonstrations are free and some are paid for.

Because *MC* has not been profitable, Rob asked Abbi, a technology specialist and successful provider of venture capital, for financial support. Abbi agreed, but insisted that *MC* organize a live music concert in six months that would be broadcast globally. She also thinks that *MC*'s mission statement needs updating.

Abbi is confident that, with her social media connections and influence, the concert will be successful. She has contacted several artists, asking them to play, and their responses have been positive. The concert will also be pay-per-view*. Some artists have agreed to play for free, and several musical instrument manufacturers will sponsor the event. Abbi predicts significant profits.

Rob likes the idea of the concert, but he doubts *MC* has the ability and resources to organize such an event. He is also concerned that some musicians will play computer-generated music, and fears a negative reaction on social media.

Table 4: Selected financial information for *MC* for 31 October 2020

Current ratio	0.8
Forecasted net loss for year ending May 2021	\$8 million
Gearing ratio	75 %
Forecasted profit for <i>MusiCology</i> if concert goes ahead in May 2021	\$24 million

* pay-per-view: a system that allows businesses to charge for premium content that otherwise might be shown for free

- (a) Describe **one** feature of a private limited company. [2]
- (b) Explain **one** advantage **and one** disadvantage for *MC* of having a mission statement. [4]
- (c) Explain **one** advantage **and one** disadvantage for *MC* of using venture capital to provide financial support. [4]
- (d) Discuss whether *MC* should organize the live concert. [10]

4. Exotlce

Exotlce (EI) is a private limited company producing and selling ice cream from a centrally located shop in a large capital city. Lena, the founder and chief executive officer (CEO), owns 80% of the shares. Her two daughters, who travel the world to find new and exotic natural ingredients for new flavours, each own 10% of the shares. The family value their freedom in the decision-making process and the collaborative and supportive nature of *EI*'s culture.

EI's unique selling point/proposition (USP) is based on:

- outstanding quality and a variety of exotic flavours made from fat-free natural ingredients
- excellent service provided by highly trained, committed and efficient employees
- customer involvement – with the use of sophisticated technology and staff support, customers can experiment to create their own flavours of ice cream.

A strong brand name and brand loyalty has led to rapid growth in *EI*'s market share. However, long queues (lines) are forming and the number of customer complaints is increasing. Lena is worried about the negative impact on *EI*.

Lena is considering two strategic growth options:

- **Option 1:** Opening eight new shops locally and nationally over the next four years. To finance this internal growth, *EI* will sell new shares. After the sale, Lena will own 51% of the shares.
- **Option 2:** Franchising *EI* nationally. A small focus group conducted by one of Lena's daughters and made up of local entrepreneurs revealed a strong interest in *EI*'s USP. Ten franchises will open each year for the next five years throughout the country.

- (a) Define the term *unique selling point/proposition (USP)*. [2]
- (b) Explain the importance of people and processes in *EI*'s extended marketing mix. [4]
- (c) Explain **one** advantage **and one** disadvantage for *EI* of using a focus group. [4]
- (d) Recommend which of the two strategic growth options, **Option 1** or **Option 2**, *EI* should implement. [10]

5. Fort Industries (FI)

Fort Industries (FI) manufactures aircraft. Jacques Fort founded the business in 1957 as a private limited company. He owned 100 % of the shares and managed the company strictly, making most of the decisions himself. *FI* grew through both internal and external growth. Later, it began to manufacture aircraft parts for other manufacturers.

Jacques led his workforce by using Taylor’s motivation theory. He regularly set clear objectives and monitored his employees carefully. Employees had to meet international quality and safety standards. Although Jacques was controlling, employees had job security and believed that he had their best interests at heart.

FI became a public limited company in 1988 and grew. Jacques found this transition difficult. He liked privacy and rarely spoke to the media. This had to change. Employees also began to ask for less supervision, wider spans of control and greater control over quality standards. Jacques retired in 2000 and his son, Henri, took over as CEO. Henri consults widely with his executive team and line managers on all decisions.

Recently, *FI* has been struggling with liquidity. Henri implemented strict cost controls and analysed the following ratios (see **Table 5**).

Table 5: Liquidity ratios for *FI* for 2019 and 2020 and industry averages for 2020

Ratio	<i>FI</i>		Industry averages
	2019	2020	2020
Current ratio	1.2	0.9	1.5
Acid test (quick) ratio	0.9	0.5	1.2

Often, *FI* has to delay payment to creditors. Employees are concerned that by saving money, safety standards at *FI* have been reduced.

Henri is considering two options to solve the liquidity problem:

- **Option 1:** A long-term loan.
- **Option 2:** Issuing and selling additional shares in *FI*.

- (a) State **two** types of external growth. [2]
- (b) Explain **one** advantage **and one** disadvantage for *FI* of motivating its employees using Taylor’s motivation theory. [4]
- (c) Explain **two** reasons why Jacques may have found the transition difficult when *FI* became a public limited company. [4]
- (d) Recommend whether Henri should choose **Option 1** or **Option 2**. [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 **culture** on organizational **ethics**. [20]

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

 8. With reference to an organization of your choice, examine the impact of **globalization** on marketing **strategy**. [20]
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References:

2. Emporioconcepto, n.d. [Wooden bench]. [online] Available at: <https://pixabay.com/photos/emporium-bank-rustic-concept-1061889/> [Accessed 30 April 2020].