

No part of this product may be reproduced in any form or by any electronic or mechanical means, including information storage and retrieval systems, without written permission from the IB.

Additionally, the license tied with this product prohibits commercial use of any selected files or extracts from this product. Use by third parties, including but not limited to publishers, private teachers, tutoring or study services, preparatory schools, vendors operating curriculum mapping services or teacher resource digital platforms and app developers, is not permitted and is subject to the IB's prior written consent via a license. More information on how to request a license can be obtained from <http://www.ibo.org/contact-the-ib/media-inquiries/for-publishers/guidance-for-third-party-publishers-and-providers/how-to-apply-for-a-license>.

Aucune partie de ce produit ne peut être reproduite sous quelque forme ni par quelque moyen que ce soit, électronique ou mécanique, y compris des systèmes de stockage et de récupération d'informations, sans l'autorisation écrite de l'IB.

De plus, la licence associée à ce produit interdit toute utilisation commerciale de tout fichier ou extrait sélectionné dans ce produit. L'utilisation par des tiers, y compris, sans toutefois s'y limiter, des éditeurs, des professeurs particuliers, des services de tutorat ou d'aide aux études, des établissements de préparation à l'enseignement supérieur, des fournisseurs de services de planification des programmes d'études, des gestionnaires de plateformes pédagogiques en ligne, et des développeurs d'applications, n'est pas autorisée et est soumise au consentement écrit préalable de l'IB par l'intermédiaire d'une licence. Pour plus d'informations sur la procédure à suivre pour demander une licence, rendez-vous à l'adresse <http://www.ibo.org/fr/contact-the-ib/media-inquiries/for-publishers/guidance-for-third-party-publishers-and-providers/how-to-apply-for-a-license>.

No se podrá reproducir ninguna parte de este producto de ninguna forma ni por ningún medio electrónico o mecánico, incluidos los sistemas de almacenamiento y recuperación de información, sin que medie la autorización escrita del IB.

Además, la licencia vinculada a este producto prohíbe el uso con fines comerciales de todo archivo o fragmento seleccionado de este producto. El uso por parte de terceros —lo que incluye, a título enunciativo, editoriales, profesores particulares, servicios de apoyo académico o ayuda para el estudio, colegios preparatorios, desarrolladores de aplicaciones y entidades que presten servicios de planificación curricular u ofrezcan recursos para docentes mediante plataformas digitales— no está permitido y estará sujeto al otorgamiento previo de una licencia escrita por parte del IB. En este enlace encontrará más información sobre cómo solicitar una licencia: <http://www.ibo.org/es/contact-the-ib/media-inquiries/for-publishers/guidance-for-third-party-publishers-and-providers/how-to-apply-for-a-license>.

**Business management**  
**Standard level**  
**Paper 2**

Friday 15 November 2019 (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. Small-Scale Hobbies (SSH)

Scale Airplane Modeller is a magazine produced by *Small-Scale Hobbies (SSH)*. The company sells the magazine through independent retail outlets in the US.

The finance director produced a summary of 2018's financial information. Last year's break-even chart showed that *SSH* had a margin of safety of 20 000 units.

**Table 1: Selected financial data for SSH for 2018:**

Annual fixed costs	\$100 000
Variable costs per magazine produced	\$2
Magazine price	\$4.50

This year, to reduce costs and to increase sales, the company will introduce new production methods, which will reduce:

- unit variable costs by 10 %
- fixed costs by \$5000 per year.

- (a) Define the term *margin of safety*. [2]
- (b) Using the financial data in **Table 1**, calculate:
- (i) the break-even level of output (*show all your working*); [2]
- (ii) the percentage of total costs that were fixed costs for last year (*show all your working*); [2]
- (iii) the level of profit for *SSH* at 2018's level of production (*show all your working*). [2]
- (c) Explain how the introduction of new production methods will affect the total cost line in *SSH's* break-even chart. [2]

2. **Daytona Go-Carts**

In 2020, Ron James aims to open *Daytona Go-Carts*, a race track where individuals as young as twelve can rent go-carts and participate in races. Through primary market research, Ron has discovered that many teenagers would enjoy participating in go-cart races.



[Source: <https://www.pexels.com>]

Ron has two options for locations for the go-cart race track:

- **Option 1:** The cost of the site would be \$1.2 million
- **Option 2:** The cost of the site would be \$1.8 million.

Forecasted profits for **Option 1** are:

Year 1	Year 2	Year 3	Year 4	Year 5
\$200 000	\$300 000	\$300 000	\$300 000	\$300 000

Forecasted profits for **Option 2** are \$300 000 in the first year, with profits growing by 20% per year for the next four years.

- (a) State **two** methods of primary market research. [2]
- (b) Calculate, for **Option 1**:
  - (i) the average rate of return (ARR) (*show all your working*); [2]
  - (ii) the payback period (*show all your working*). [2]
- (c) Calculate, for **Option 2**, the average rate of return (ARR) (*show all your working*). [2]
- (d) Explain **one** reason why **Option 1** may be a less risky investment than **Option 2**. [2]

## Section B

Answer **one** question from this section.

### 3. Top Star (TS)

*Top Star (TS)* manufactures sports footwear. Its products are sold through retail outlets and online. Sales of *TS*' footwear in retail outlets are falling. However, because e-commerce is growing rapidly, online sales are increasing. In 2018, *TS*' total domestic sales were \$5 000 000 and total domestic market sales for the same time period were \$50 000 000.

*TS* must consider several challenges:

- Some businesses in the sports footwear industry are finding that selling online leads to many problems and higher costs
- *TS*' website is not user friendly. Customer complaints about the website and ordering problems are increasing
- *TS*' presence in international markets is weak and its product range is limited. The directors of *TS* want to develop a new line of running shoes but the company has insufficient finance for research, development and creating brand awareness.

The directors think that *TS* should follow an external growth strategy. Two options are being considered:

- **Option 1:** Some directors propose a merger with a footwear manufacturer, the multinational company *All Champion*, which would allow *TS* to be more competitive
- **Option 2:** Other directors propose a merger with a footwear retailer that has a strong presence in domestic and international markets.

The finance manager believes that merging with *All Champion* could hurt *TS*' reputation. *TS*' factories may have to close, which the local population may resent.

- (a) Describe **one** feature of a multinational company (MNC). [2]
- (b) Calculate *TS*' market share in 2018 (*show all your working*). [2]
- (c) Explain **two** disadvantages **and one** advantage to *TS* of selling its products online. [6]
- (d) With reference to *TS*, evaluate the two merger options. [10]

4. Imperial Falls (IF)

*Imperial Falls (IF)* is a luxury hotel in a city centre. The hotel is an old palace, elegantly furnished and overlooking the harbour. Of the highest quality, for decades *IF* has been the preferred hotel for business travellers to the city. Relying on reputation and word of mouth, *IF* does little promotion. Its facilities include a swimming pool and a high-quality restaurant. **Table 1** shows information about the principal hotels located in this city centre in 2018.

**Table 1: Selected information about the principal hotels in the city centre in 2018**

Hotel	Average room price per night	Service rating
A. Imperial Falls	\$245	5 stars
B. Bellevue	\$179	3 stars
C. Welcome Rest	\$215	4 stars
D. Excalibur	\$155	3 stars

In 2019, bookings at *IF* have begun to decline because of a new hotel, *Guest Rooms (GR)*, which is part of a global chain. Many businesses have employees who travel to major cities, where most business meetings occur. Hotels in city centres are usually luxurious and expensive. *GR* is different. It offers clean, small rooms with Wi-Fi, a small desk and a double bed. Room prices at *GR* are significantly lower than most city-centre hotels. The new *GR* is located near the airport, 6 kilometres (3.72 miles) from the city centre.

*GR* uses a fee-based membership model and member companies require employees to stay at a *GR* hotel when on business. Employees may also stay there when on personal travel. Guests use self-service check-in machines (similar to those used at airport check-ins), which issue electronic keys. *GR* electronically bills the company directly. Service is minimal. *GR* relies heavily on social media marketing. It also uses above-the-line promotion.

- (a) State **two** types of above-the-line promotion. [2]
- (b) Using **Table 1**, construct a product position map/perception map for all four hotels prior to the opening of *GR*. [4]
- (c) Explain **two** ways in which *GR* is able to offer rooms at a lower price than *IF*. [4]
- (d) Discuss possible changes to *IF*'s marketing mix to reduce the loss of customers to *GR*. [10]

## 5. FrioAire Appliances (FA)

*FrioAire Appliances (FA)* manufactures medium-priced and medium-quality refrigerators. It is a multinational public limited company. Its factory is located in a less economically developed country that has high unemployment, a tradition of autocratic leadership and labour costs lower than *FA*'s home country. The factory is profitable, and *FA* pays consistently good dividends. Market growth for medium-priced and medium-quality refrigerators is limited.

As part of a strategic objective to increase productivity and to enter a fast-growing market for high-priced and high-quality refrigerators, *FA* is considering building a new factory in and relocating production to Germany. This would require closing the factory in the less economically developed country. The new factory will:

- use innovative technologies, including advanced robotics and 3D processes
- require fewer employees, but those it does require will need to have better skills and qualifications.

Germany has a highly skilled, qualified and productive workforce. The new factory would allow *FA* to reposition its products. However, *FA* would need to raise significant finance to build and equip the new factory.

*FA*'s leadership style at the factory in the less economically developed country is autocratic. Members of *FA*'s board wonder whether this style would be suitable for the new factory in Germany, where workers have more bargaining power because of their high skill level and the labour-friendly cultural traditions. In Germany, *FA* would have to follow more regulations regarding the environment, health and safety, and employee rights.

*FA* workers in the less economically developed country are very loyal to *FA*, which has continued operation through a civil war at significant cost to itself (for security). If *FA* were to close in the less economically developed country, the workers would not find such good jobs.

- (a) Describe **one** disadvantage of operating as a public limited company. [2]
- (b) Explain **one** benefit **and one** cost to *FA* of using an autocratic leadership style. [4]
- (c) Explain **one** positive **and one** negative impact of *FA* on the developing country. [4]
- (d) Evaluate the option of building a factory in, and relocating, to Germany. [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 business **ethics**. [20]
  
  7. With reference to an organization of your choice, examine the impact of **innovation** on distribution **strategy**. [20]
  
  8. With reference to an organization of your choice, discuss the ways in which **culture** can promote or inhibit **change**. [20]
-