Diploma Programme
Programme du diplôme
Programa del Diploma

Business management
Standard level
Paper 2

Tuesday 26 October 2021 (morning)

1 hour 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 one question.
- A calculator is required for this examination paper.
- The maximum mark for this examination paper is **[30 marks]**.

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Section A

Answer **one** question from this section.

1. Jill's Gloves (JG)

Jill's Gloves (*JG*) is a sole trader owned by Jill McAloon. The business makes and sells ski gloves. *JG* sells each pair of gloves for $20.

Jill has forecasted sales in 2022 to be 20 000 units. She has also projected the fixed costs (**Table 1**) and variable costs (**Table 2**) for that year.

Table 1: Projected fixed costs for 2022

Rent	$25 000
Insurance	$10 000
Salaries	$40 000

Table 2: Projected variable costs per pair of gloves for 2022

Material	$11
Packaging	$1
Shipping	$3

Jill expects a 10 % increase in her fixed costs and a 5 % increase in her variable costs in 2023.

(a) State **two** features of a sole trader. [2]

(b) Construct a fully labelled break-even chart, to scale, for *JG* for 2022. [4]

(c) Calculate *JG*'s level of profit if sales are 20 000 units in 2022 (*show all your working*). [2]

(d) Explain how the changes that Jill expects in fixed and variable costs in 2023 would affect the total costs line of the break-even chart from your answer to (b). [2]

2. Wong Corporation (WC)

Wong Corporation (*WC*) manufactures clothes dryers. *WC* pays tax at a rate of 20 %. *WC* has a hierarchical organization structure. **Table 3** shows selected forecasted financial information for the company for 2022, and **Table 4** shows its annual cash flow forecast for 2022.

Table 3: Selected forecasted financial information for *WC* for 2022
(all figures in $000s)

Cost of sales	$34 000
Debtors	$4000
Expenses	$10 000
Gross profit	**X**
Interest	$2000
Net profit after interest and tax	$3200
Net profit before interest and tax	$6000
Net profit before tax	$4000
Sales revenue	$50 000
Short-term loans	$6000
Tax	**Y**

Table 4: Annual cash flow forecast for *WC* for 2022
(all figures in $000s)

Receipts from debtors	$48 000
Total receipts/inflow	$48 000
Payments to creditors	$28 000
Payments for expenses	$10 000
Repayment of debt	$2400
Capital expenditure	$5000
Total payments/outflow	$45 400
Net cash flow	**Z**
Opening balance	$7400
Closing balance	$10 000

(a) State **two** features of a hierarchical organizational structure. [2]

(b) Calculating **X** and **Y** in **Table 3**, prepare a profit and loss account for *WC* for 2022 (*show all your working*). [4]

(c) Using **Table 4**, calculate *WC*'s net cash flow for 2022 (*show all your working*). [2]

(d) Explain the difference between *WC*'s profit and its cash flow. [2]

Section B

Answer **one** question from this section.

3. High Plains PLC (HP)

High Plains PLC (*HP*) owns 600 budget hotels. It operates in a rapidly growing market and has a 60 % market share of the budget hotel market.

Recent secondary market research on the hotel industry revealed:

- guests of luxury hotels are brand loyal
- 80 % of guests of budget hotels respond positively to a price reduction
- the budget hotel market is growing rapidly
- detailed statistics and information on all hotel chains.

HP's directors aim to increase occupancy rates in *HP*'s hotels from the current 65 % to 80 % by the end of 2024. Each of *HP*'s hotels has 400 rooms. People on business trips account for only 15 % of the hotels' bookings.

HP is considering two options.

Option 1: Price discounts on 100 of the rooms in each of *HP*'s hotels

The discounts would undercut prices charged by its major competitor, *Kampfort Inns* (*KI*), by 10 %. *HP* would also offer a price match guarantee, which means that it would match any lower price charged by *KI* for any room.

Option 2: Upgrade 100 of the standard rooms in each of *HP*'s hotels

Upgraded rooms, called HP+, would have improved IT facilities, new décor, a coffee machine and a better shower. HP+ rooms would be $20 per night more expensive than standard rooms. Estimated upgrade costs are $1500 per room, and the upgrades would take two years to complete. The HP+ rooms are targeted both at the business traveller market segment and at customers willing to pay slightly more for an enhanced hotel experience.

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

(b) Construct a Boston Consulting Group (BCG) matrix for *HP*, identifying the correct segments for *HP*'s standard rooms **and** its HP+ upgraded rooms if **Option 2** is chosen. [4]

(c) Explain **one** advantage **and one** disadvantage for *HP* of using secondary market research. [4]

(d) Discuss whether *HP* should choose **Option 1** or **Option 2**. [10]

4. Trestle Z PLC (TZ)

Trestle Z PLC (*TZ*), a specialist coffee roaster, operates in the secondary sector. Its instant coffees are sold worldwide in a very competitive market. Consumers in this market have strong brand loyalty.

Although demand for instant coffee has not grown in many richer countries, it is growing in emerging markets and Eastern Europe. *TZ* has no control over the price of its raw material (coffee beans), as prices are determined by world markets.

The directors of *TZ* want to increase the company's gross profit margin and net profit margin and grow the business. **Table 5** gives selected financial information for the company for 2019 and 2020.

Table 5: Selected financial information for *TZ*

	2019	**2020**
Gross profit margin (%)	25	23
Net profits ($ m)	2300	1500
Cash ($ m)	600	400

TZ's directors are considering two options.

Option 1: Take over a specialist coffee business

TZ is considering taking over *Green Glass* (*GG*) for $600 million. *GG* owns 1000 cafés in the USA that sell speciality products at high prices. It also has an e-commerce subscription service that sells its coffee beans to consumers. In 2020, *GG*'s net profits were $120 million. *GG* has a well-organized distribution channel and strong brand awareness in the USA. *TZ* would operate the cafés using the *GG* branding.

Option 2: Launch its own chain of cafés

These cafés would compete against established chains of cafés serving the mass market. Initially, the launch would be in three EU countries but would then, if successful, be launched across the world. *TZ* would produce a range of freshly ground coffees for sale in the cafés.

(a) Define the term *secondary sector*. [2]

(b) Explain **two** factors that might prevent *TZ* from increasing its gross profit margin. [4]

(c) Explain, using the Ansoff Matrix, *TZ*'s proposed takeover of *GG*. [4]

(d) Recommend whether *TZ*'s directors should choose **Option 1** or **Option 2**. [10]

5. Office Supplies (OS)

Office Supplies (*OS*) is a family-owned private limited company that, for 40 years, has operated three retail office supply stores in a small city. *OS* offers a wide range of office products (such as computer paper and stationery) and office machinery (such as computers and printers). When each store opened, *OS* purchased the buildings using long-term loan capital. *OS*'s objective is to have enough profit to finance the company's working capital and pay annual dividends.

OS has no clear marketing strategy. Traditionally, *OS* competed with several other office supply stores operating in the same city. The market was not competitive, however, and most customers went to the nearest office supply store. *OS*'s prices were comparable to those of other retail office supply stores, and the company did little promotion.

Nationally, the retail office supply store industry is declining. Many retail office supply stores have had to close, and new competitors have entered the market, many of which benefit from some or all of the following:
- Specialization in particular office products
- Economies of scale leading to more competitive prices
- Greater convenience, including e-commerce with door-to-door delivery

Like other physical retail stores, *OS* has seen its sales decline. Gross and net profit margins have fallen. Last year, to ensure enough funds for capital expenditure and revenue expenditure, *OS*'s board of directors chose not to pay dividends. *OS* also anticipates the need for additional finance next year. *OS*'s board is considering changes to the company's marketing mix in response to new competitors.

(a) State **two** marketing objectives that a company might have. [2]

(b) With reference to *OS*, explain **one** advantage **and one** disadvantage of operating as a private limited company. [4]

(c) With reference to *OS*, explain the difference between capital expenditure and revenue expenditure. [4]

(d) Discuss possible changes to any **two** elements of *OS*'s marketing mix. [10]

References:

4. Author: Clker-Free-Vector-Images (pixabay.com).