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Business management

Higher level and standard level

Paper 1

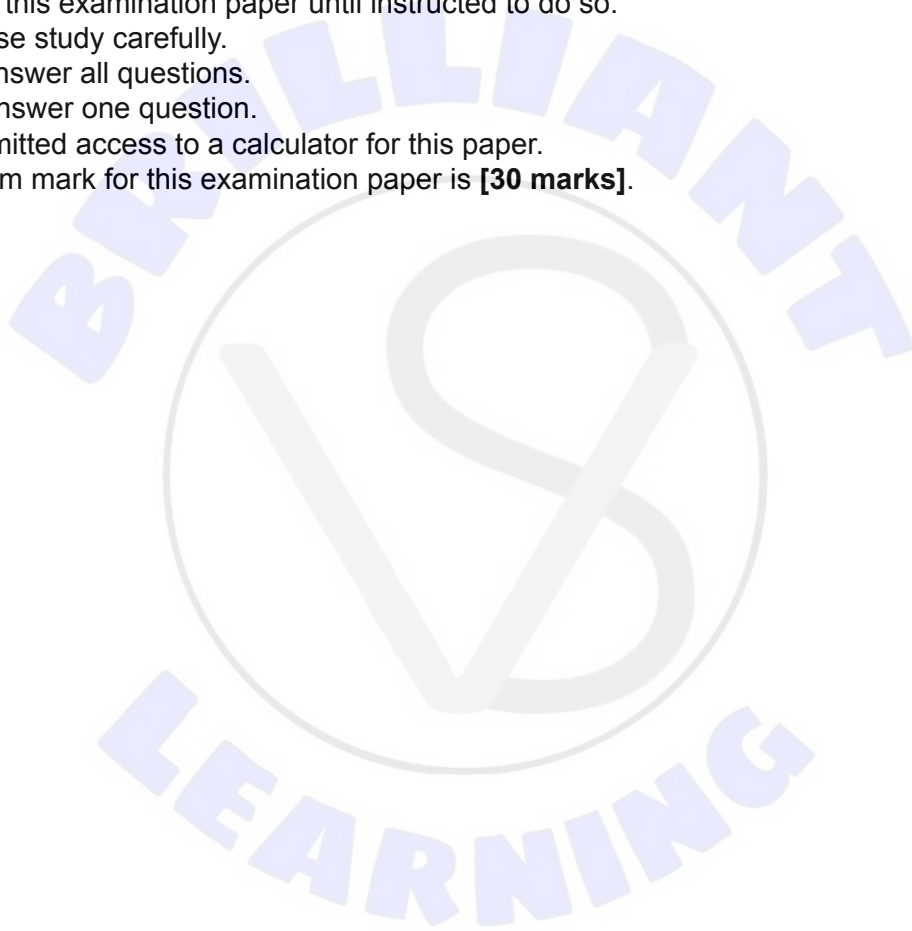
26 April 2024

Zone A afternoon | Zone B afternoon | Zone C afternoon

1 hour 30 minutes

Instructions to candidates

- Do not open this examination paper until instructed to do so.
- Read the case study carefully.
- Section A: answer all questions.
- Section B: answer one question.
- You are permitted access to a calculator for this paper.
- The maximum mark for this examination paper is **[30 marks]**.



Before One PLC (BON)

Music festivals are growing in number globally. Festivals vary in location, size, and music genre. They include commercial multiple-day events on farmland and community-led events in public-owned parks.

Before One PLC (BON), a European company, has organized music festivals since 2001.

- 5 In 2016, *BON* converted from a private limited company to a public limited company to raise finance for expansion. *BON* has 60 permanent employees but also relies on temporary workers and freelancers.

- 10 *BON* organizes five music festivals each year and has contracts with five farmers to use their farmland for an average fee of \$100 000. *BON* must clean up after a festival at an average cost of \$250 000 per festival. *BON*'s directors regard environmental sustainability as a significant challenge.

BON's festival season runs from May to August. Each music festival runs from Friday to Sunday. Each festival site:

- takes two weeks to set up and one week to dismantle
- 15 • requires security fencing, 60 stages, enough space for camping, 3000 toilets, and 25 000 waste bins.

BON uses outsourcing to provide 300 on-site food and drink outlets. In 2023, *BON* had sales revenue of \$250 million and a profit margin of 20%. *BON*'s market share increased in 2023 when a competitor ceased trading.

- 20 *BON*'s music festivals feature numerous music performers. *BON* signs contracts with the music performers 12 months in advance of a festival.

Each festival is advertised on *BON*'s website and social media pages. Many of *BON*'s customers attend festivals every year and regularly check *BON*'s social media pages. The maximum number of tickets available per day is 100 000. In 2022 and 2023, all tickets were sold at \$100 a ticket.

- 25 Many tickets were purchased using interest-charging credit cards.

- 30 After a festival, the site will have a huge amount of waste and discarded items, including camping equipment and footwear. Seventy temporary workers clear the waste and discarded items for transportation to a landfill site. *BON* claims to be more sustainable than previously, as this year it will generate 20% of the electricity for its festivals from solar power. *BON* also requires on-site food outlets to use environmentally friendly bamboo plates and cutlery.

A charity offered to re-sell discarded items if *BON* could sort and transport them to the charity's warehouse. *BON* declined the offer, however, as it would slow down clean-up operations and increase costs. An environmental pressure group, *Friends of the Planet (FOTP)*, criticized *BON* for greenwashing and prioritizing profit over the planet.

- 35 In 2020 and 2021, *BON* used government-backed loans to protect jobs when the COVID-19 pandemic led to the cancellation of music festivals. *BON* relies on a seasonal bank overdraft facility. Its overdraft peaked at \$6 million in January 2024. Interest rates are rising.

- 40 Patrice Moon, the site manager, supervises the setup of each festival site. She has complete control over decisions during site setup and dismantling. Patrice makes all decisions without consulting her subordinates. Her span of control includes the departmental heads in charge of lighting, sound, stage construction, and security. Under Patrice's control, all *BON*'s festivals open on time.

BON must provide adequate water for drinking and hygiene. Water reservoirs are on site for peaks in demand. In July 2023, a faulty water pump almost prevented a festival from starting on time. Patrice made the decision, without consulting her line manager (the operations director), to hire a helicopter and fly 300 miles to take her to collect a new water pump from a supplier. She returned at midnight. Early the next morning, an engineer replaced the faulty pump. The festival started on time. The hire of the helicopter was expensive and not budgeted for or approved by Patrice’s line manager. Furthermore, recent media reports highlighted complaints from construction-site workers that Patrice bullies, shouts at, and threatens workers if tasks are not completed on time or to her satisfaction.

The pandemic left many skilled temporary workers and freelancers without work, and many have since found permanent jobs in other industries. In 2023, *BON* introduced a range of fringe payments for skilled temporary workers to improve recruitment and retention.

A city mayor has approached *BON*. They are planning a three-day community festival for September 2025 in the city’s main public park. Thousands of people use this park. The park would close for four weeks. The mayor wants *BON* to:

- set up the festival site
- run the festival
- clean up after the festival ends.

The mayor has offered *BON* a \$5 million fee and 50 % of ticket sales revenue. The mayor’s office will organize ticket sales and the outsourcing of food and drink outlets. They hope to sell 150 000 tickets (50 000 per day) at \$50 a ticket. *BON* is considering this offer. *BON*’s operations director estimates setup costs of \$6 million and running costs of \$2 million.

Other city mayors are considering running similar festivals because of the potential local economic benefits and want to see if this community festival is successful. Meanwhile, *FOTP* has highlighted on social media the potential negative impacts on the local community.

In early 2024, *BON*’s board of directors began considering expansion into the music concert market. Music concerts take place throughout the year in many towns and cities. Music performers play concerts in halls, arenas, and sports stadiums. *BON* would need to:

- raise additional finance
- hire venues
- negotiate contracts with music performers
- provide sound and lighting equipment
- organize venue security
- organize ticket sales and marketing.

BON’s financial director, Dyna Zwiki, believes that by 2027, *BON* could achieve a 5 % share of the music concert market. However, to achieve this, *BON* would need to charge lower prices than its competitors. Dyna has warned that this would reduce *BON*’s profit margins to 8–10 %.

The music concert market’s total revenue in 2023 was \$3.5 billion and is forecast to grow to \$4 billion by 2027. *Concerts for All* (*CFA*), with a 24 % market share, dominates this market. *CFA*’s dominance is due in part to hostile takeovers of smaller businesses. *CFA* has exclusive contracts with many world-famous music performers and has five-year contracts with many famous venues. In 2023, *CFA*’s profit margin was 20 %.

Companies, products, or individuals named in this case study are fictitious and any similarities with actual entities are purely coincidental.

Section A

Answer **all** questions from this section.

1. Define the term *pressure group* (line 33). [2]
2. Define the term *market share* (line 18). [2]
3. Describe **two** possible implications of rising interest rates for *BON* (line 37). [4]
4. Explain **one** advantage **and one** disadvantage for *BON* of converting from a private limited company to a public limited company (lines 5–6). [4]
5. Explain **one** reason why *BON* would have expected Patrice to seek approval to hire the helicopter to collect the new water pump (lines 44–45). [2]
6. Analyse **three** ways in which Patrice’s leadership style could affect *BON*’s profitability (lines 38–50). [6]

Section B

Answer **one** question from this section.

7. Discuss whether *BON* should accept the city mayor’s offer to set up and run its community festival. [10]
 8. Discuss whether *BON* should expand into the music concert market. [10]
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