Diploma Programme
Programme du diplôme
Programa del Diploma

Business management
Standard level
Paper 2

Tuesday 27 October 2020 (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]**.

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Section A

Answer **one** question from this section.

1. MiniVS (MV)

MiniVS (*MV*) imports light bulbs, which it sells business to business (B2B) to customers in the UK. In 2020, *MV* ran into cash-flow problems and had to use debt factoring.

MV has now solved its cash-flow problems. It operates a cost-plus (mark-up) pricing strategy and places a 100 % mark-up on the light bulbs that it purchases from suppliers.

The forecasted opening cash balance for January 2021 is £20 000.

Table 1: Forecasted data per month for *MV* for the first six months of 2021 (all figures in £)

	Months 1–3	Months 4–6
Cash sales per month	75 000	70 000
Warehouse overheads	5000	5000
Office salaries	30 000	30 000
Marketing costs	1000	1000

The finance director is concerned that the online market for light bulbs in the UK is becoming increasingly price competitive. She believes that if suppliers raise prices in the second half of 2021, *MV* will have to abandon its cost-plus (mark-up) pricing strategy to be price competitive.

(a) State **two** features of debt factoring. [2]

(b) Using the information in **Table 1**, construct a fully labelled cash flow forecast for *MV* for the first six months of 2021. [6]

(c) Explain the potential impact on *MV*'s gross profit margin if the prices charged by its suppliers increase in the second half of 2021. [2]

2. KPJ

KPJ operates a cinema in a small town. It uses a price discrimination strategy for cinema tickets.

Table 2: Selected financial information for *KPJ* for year ending 31 December 2019 at 31 Dec 2019 (all figures in $)

Cost of goods sold	122 000
Long-term liabilities (debt)	2800
Interest and tax	9500
Gross profit	**X**
Total current assets	8330
Sales revenue	175 000
Net fixed assets	63 000
Expenses	81 000
Total current liabilities	6800
Share capital	60 000
Accumulated retained profit	1730

(a) Define the term *price discrimination*. [2]

(b) Using **Table 2**, calculate:

(i) **X** (*no working required*); [1]

(ii) the current ratio for 2019 (*no working required*). [1]

(c) Using **Table 2**, prepare a balance sheet for the year ending 31 December 2019. [4]

(d) Explain the possible changes to *KPJ*'s balance sheet for 2019 if *KPJ* spent $30 000 on a new digital projector. [2]

Section B

Answer **one** question from this section.

3. The Burnt Tomato (BTO)

In 2003, Ben opened a street-food stall selling vegan food. The food stall was successful. Ben spent little on marketing, mainly advertising on the food stall itself and relocating it to places or events where many consumers would pass by.

In 2008, Ben used the profits from the food stall to open a restaurant, *The Burnt Tomato* (*BTO*), which initially employed 16 people. In the following years, labour turnover was low. Employees received an annual bonus, which increased with each year of employment.

In 2015, Ben created a website and began to use social-media marketing. Customers were encouraged to rate their *BTO* experience online. Their reviews consistently rated *BTO*'s experienced staff highly and showed that they thought the food was exceptional value. Ben replied to all reviews. Many *BTO* customers also joined a *BTO* social media group and communicated with each other and *BTO* regularly. For many customers, the total *BTO* experience of vegan food and social networking was like being in a club.

Unfortunately, high labour costs, reasonable profits and the use of high-quality ingredients meant that *BTO*'s gross and net profit margins were below industry averages.

Aware of the growing demand for vegan food, Ben borrowed money from a family member in 2018 and opened two more *BTO*s in different cities, hiring 32 new employees. However, in January 2019, a long-time customer of the original *BTO* ate at one of the new restaurants and wrote a negative review. The review went viral and sales at all three *BTO*s declined.

(a) State **two** appropriate sources of finance Ben may have used when he first opened his vegan food stall. [2]

(b) Explain **one** positive impact **and one** negative impact on *BTO* as a result of having low labour turnover. [4]

(c) Explain **one** advantage **and one** disadvantage for *BTO* as a result of its use of social media. [4]

(d) Discuss Ben's decision to enlarge the scale of *BTO* from one restaurant to three restaurants. [10]

4. Nigris & Speroni (NS)

Nigris & Speroni (*NS*) is a national grocery store chain. In the tertiary sector, it benefits from economies of scale, including purchasing economies of scale. Its stores use sophisticated computerization to manage stock and monitor customers' purchasing habits. *NS* is currently experimenting with cleverly placed products and short-term promotions to increase impulse purchases, which occur when a customer makes unplanned purchases. Something in the store – a smell, a vivid display, samples of products – triggers a customer's desire for items.

NS has above-average prices compared to the industry average, but at least one other chain is more expensive. The grocery store industry is competitive and grocery stores use many different pricing strategies. *NS* is considering adopting an online ordering and delivery service for customers, which would operate from its stores.

Each of *NS*' stores is given a number to identify it. Store number 507 is called *NS 507*.

Table 3: Selected financial information for *NS 507* for 2019

Gross profit	\$5 300 000
Net profit margin	3 %
Sales revenue	\$20 000 000

On 1 January 2020, an organic grocery store, *U-Foods*, opened near *NS 507*. *U-Foods* sells high-quality foods, including organically produced fruits and vegetables, organically raised meats and sustainably sourced seafood (not from fish farms). It charges higher prices than *NS 507* and has higher margins. The few processed foods that it sells are organic and low in salt. Unlike *NS 507*, *U-Foods* does not sell cigarettes or high-sugar beverages and cereals. It is also not considering an online ordering and delivery service like *NS* is.

In the first six months of 2020, however, *NS 507* lost market share. Sales revenue was 12 % lower than in the first six months of 2019, even though the number of customers and transactions did not change.

(a) State **two** types of business, **other than** grocery stores, that operate in the tertiary sector. [2]

(b) Explain **two** elements of *U-Foods*' marketing mix **other than** price. [4]

(c) Calculate for 2019:

(i) *NS 507*'s gross profit margin (*no working required*); [1]

(ii) *NS 507*'s net profit before interest and tax (*no working required*). [1]

(d) Explain **one** economy of scale, **other than** purchasing economies of scale, from which *NS* might benefit. [2]

(e) Discuss **two** possible methods that *NS 507* could use to regain lost market share. [10]

5. Pablo's Peanuts (PP)

Pablo recently emigrated from Argentina to Miami, Florida, which has a large Hispanic* population. However, he could not find caramelized peanuts – known as *garrapiñada* –at any of the Latin American markets in Miami. These tasty sweet snacks, sold by street vendors, are very popular in Latin American countries. Pablo began testing different recipes to make the snack himself. Once convinced he had the perfect product, he conducted primary market research in several Hispanic neighbourhoods. He was overwhelmed by the positive response.

As a result, Pablo set up *Pablo's Peanuts* (*PP*) as a private limited company. He then purchased a food truck (a large vehicle equipped to cook and sell food). From Tuesday to Sunday, he drove to different Latin American markets in the Miami area to cook and sell his product. *PP* soon became profitable, but meeting demand was difficult.

Pablo wants *PP* to grow. To do this, he needs a second food truck and an employee. The second truck would require an investment of $100 000. Pablo's break-even analysis shows that the expected increased output would more than double *PP*'s profits if the cost of fuel for the food trucks remains constant.

Pablo is considering two options to finance the second truck:

- **Option 1:** A local Miami bank, clearly impressed by the break-even analysis data, is willing to lend Pablo $100 000 with a 10 % interest rate.
- **Option 2:** A business angel, Ana Perez, with a strong portfolio of Latin American food products, has approached Pablo. She is offering $100 000 for 35 % of shares in *PP*.

Table 4: Financial data related to both options

	Option 1: Bank loan	**Option 2: Business angel**
Investment	$100 000 @ 10 % interest	$100 000 for 35 % of shares in *PP*
Expected operating profits	$210 000	$210 000
Expected annual dividends to Pablo	$10 000	$13 000
Expected annual dividends to the business angel	$0	$7000
Gearing ratio	50 %	0 %

* Hispanic: relating to Spain or to Spanish-speaking countries, especially those of Central and South America

(a) State **two** characteristics of a business angel. [2]

(b) Explain **two** reasons why Pablo conducted primary market research. [4]

(c) Explain **one** advantage **and one** disadvantage of using a break-even analysis for *PP*. [4]

(d) Recommend whether Pablo 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]