



**BUSINESS AND ORGANISATION
STANDARD LEVEL
PAPER 2**

Wednesday 23 May 2001 (morning)

1 hour 45 minutes

INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- Answer four questions.

1. Top Trend Limited is a clothes manufacturing family business. It was set up in the 1970s and it initially went through a period of sustained growth. From supplying to independent retail stores it integrated vertically and opened its own retail shops. During the 1980s the firm kept growing and the profits were reinvested into the firm to finance further growth. It became the fashionable chain store for teenagers. During the second half of the decade two similar firms opened up, offering tough competition. For the last five years the firms have competed using marketing elements other than price. However, recently each one of the competitors has been bought by a large international holding company, and Top Trend Limited is finding it very difficult to stay competitive.
- (a) Explain the benefits of vertical integration. *[4 marks]*
- (b) Analyse the advantages and disadvantages of financing growth with reinvested profit. *[4 marks]*
- (c) Explain why the three firms avoided price competition over the last five years. *[3 marks]*
- (d) What is an international holding company and what benefits does the international holding company seek when purchasing clothes manufacturing firms in different countries? *[3 marks]*
- (e) Discuss **three** strategies that Top Trend Limited can implement to stay competitive. *[6 marks]*

2. A Government representative has publicly announced that wages in his country have been frozen and no public sector worker will get an increase, unless labour productivity improvements are made. The workers trade union has responded by announcing a strike. The government has ignored the threat, knowing that the public sector workers have relatively little bargaining power and that low costs of production are important for the country to stay competitive.
- (a) Define the public sector, giving reasons for its existence. *[4 marks]*
- (b) How is the public sector financed? *[2 marks]*
- (c) (i) Identify how labour productivity improvements can be achieved. *[3 marks]*
- (ii) Explain the government decision to tie wage increases to productivity. *[1 mark]*
- (d) Define the term ‘trade union’ and identify a union’s most important functions. *[4 marks]*
- (e) Analyse why some unions have more power than others. Use examples from your own country to illustrate your answer. *[6 marks]*

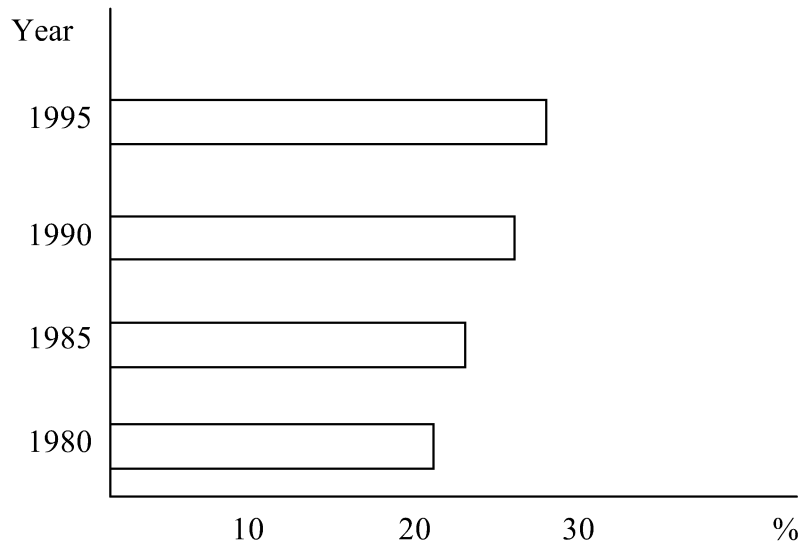
3. A gas/petrol company located in a poor LDC (Less Developed Country) has observed that its sales of gas/petrol have gone down by 15% in the first quarter of the current year, causing great concern to its managers. Marketing information shows that price has remained the same, so the reduction might be due to causes that lie outside the firm. A possibility is that the country is going into a recession which could last a few years. In anticipation of the problem, the General Manager has called a Senior Management meeting in which the following ideas were put forward:

- the Production Manager wants to reduce overhead (fixed) costs
- the Marketing Manager and Human Resource Manager want to reduce the price of petrol/gas.

- (a) Assess the main type of research the firm should conduct to provide enough evidence to identify the cause/s of the down trend in sales. *[5 marks]*
- (b) Identify the main characteristics of a recession. *[2 marks]*
- (c) Discuss the position that each of the managers took at the meeting. *[6 marks]*
- (d) As the General Manager of the firm, analyse measures that you consider would best deal with the problems of a recession and justify your choices. *[7 marks]*


4. Ms Charms, a designer in a large advertising firm Ads & Such Limited, has been asked to leave the business under the promise that she will be subcontracted immediately (that is she will be asked to do the same tasks as an independent self-employed worker). The decision has caused a lot of unrest at Ads & Such and the Personnel Manager has been accused of making the staff unhappy. Ms Charms found the following chart and realised that there were changes happening in the country, ‘Titania’, of which she hadn’t been aware.

Percentage of **self-employed** people in the country ‘Titania’



- (a) (i) What trend does the above chart show? *[1 mark]*
- (ii) Give possible reasons to explain the causes of the trend. *[3 marks]*
- (b) From the point of view of a worker, identify the advantages and disadvantages of being self-employed. *[4 marks]*
- (c) From the point of view of a business, analyse the advantages and disadvantages of subcontracting jobs. *[6 marks]*
- (d) (i) Show how the organisation structure of Ads & Such will have to change if the firm decides to subcontract a large percentage of its workers. *[3 marks]*
- (ii) Explain how the job of the Personnel Department at Ads & Such will change to adjust to the above structure. *[3 marks]*

5. Study the graph below before answering the questions:

Market Growth		
High	 Prospects	? Problem child
Low	Cash Cows (Yielders)	Dogs
	High	Low
	Relative Market Share	

Tavanna SA (Limited) developed a successful product which quickly grew from a ‘star’ product to a ‘cash cow’. The product Mellow, was an individually wrapped cookie with a caramel filling. Mellow’s small size, low price and agreeable taste made it the perfect snack. Tavanna SA enjoyed success and reaped the profits which were distributed to shareholders in greater amounts each year. After four years, profits started to fall fast and a market analysis showed that there were five new brands in the market competing with them.

- (a) How do firms measure their market share? *[2 marks]*
- (b) Assess the benefits for Tavanna SA of having products that fit into some or all of the different boxes of the matrix? *[5 marks]*
- (c) Using the concept of Product Life Cycle, illustrate and explain the product life of Mellow. *[5 marks]*
- (d) Give **one** advantage and **one** disadvantage of distributing more profits to shareholders. *[2 marks]*
- (e) Prepare a strategic plan to help Tavanna SA restore its position in the market. *[6 marks]*

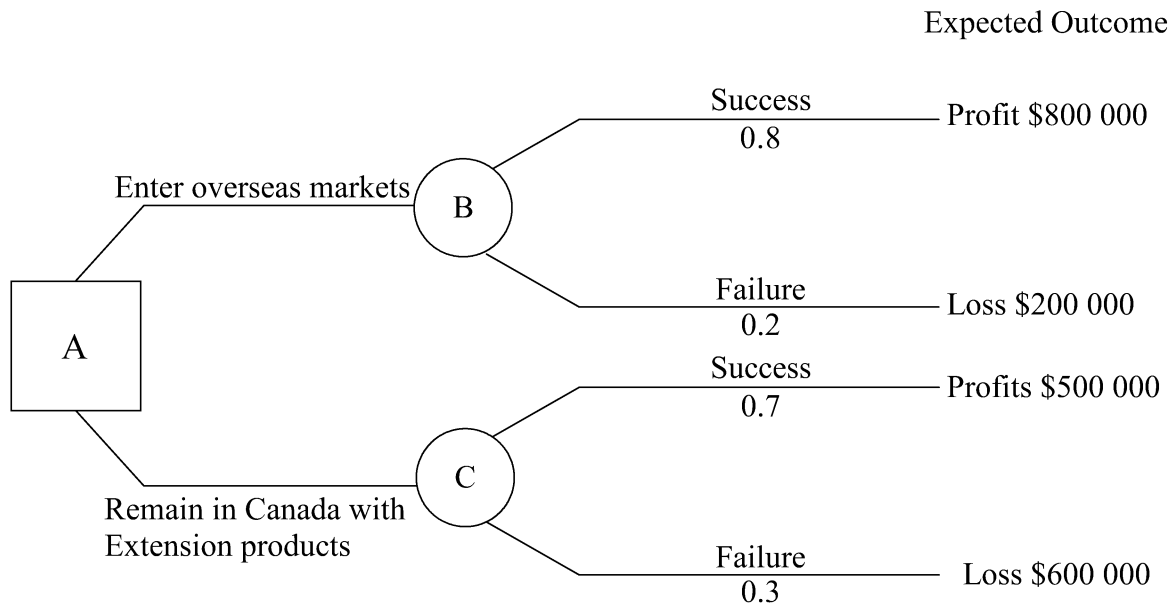
6. Four friends have set up a firm to run a restaurant business in the capital city of the country where you live. They need to borrow money from the bank so they must present a business plan in which they must show how many customers they need to have per week in order to break-even. They estimate their fixed costs per week at \$750.00 and have decided that the average price they will charge for a three-course meal is \$15.00. The variable costs of each meal are \$5.00. After reading the business plan the banker pointed out that they would have cash flow problems at the start of the business and therefore need an overdraft facility.
- (a) Write a paragraph discussing **three** issues the four friends should consider before deciding the type of business to set up. *[3 marks]*
- (b) Using the cost and price information provided calculate:
- (i) the break-even point of output; *[2 marks]*
- (ii) the profit/loss if they had 40 customers a week; *[2 marks]*
- (iii) the profit/loss if they had 95 customers a week. *[2 marks]*
- (c) Draw a break-even graph to illustrate the above points (i), (ii) and (iii). (Use the squared or graph paper provided.) *[6 marks]*
- (d) (i) What are cash flow problems and why are the friends likely to have them? *[3 marks]*
- (ii) What is an overdraft facility? Why is this facility necessary? *[2 marks]*

7. Analyse the following profit and loss account and answer the questions below.

	Year 1	Year 2
Sales Turnover	2500	2250
Cost of goods sold	<u>1000</u>	<u>950</u>
Gross profit or loss	?	?
Distribution costs	500	450
Administration expenses	<u>250</u>	<u>200</u>
Operating profit	?	?
Income from share in group companies	50	50
Income from share in foreign companies	25	10
Income from investments in other fixed assets	25	0
Other interest receivable	<u>25</u>	<u>15</u>
Profit before tax	?	?
Corporation Tax (20%)	<u>?</u>	<u>?</u>
Profit after Tax	?	?

- (a) (i) Calculate the operating profit and the profit before tax for Year 1 and 2. *[4 marks]*
- (ii) Calculate the corporation tax and profit after tax for Year 1 and 2. *[4 marks]*
- (b) Give **three** reasons to explain the difference between Operating Profit and Profit before Tax. *[3 marks]*
- (c) Explain the term ‘cost of goods sold’, and provide the formula a firm will use to calculate its value. *[2 marks]*
- (d) Using relevant ratios analyse the profitability of the firm during both years. Give possible reasons to explain the changes that took place in Year 2. *[5 marks]*
- (e) Explain **two** difficulties that will arise when comparing the financial data of different businesses. *[2 marks]*

8. The Drink Company Limited is a Canadian firm that produces a successful drink for sports people. The drink has a low unit cost of production and sells at a premium price in Canada, because of brand loyalty and image developed by linking it to several high profile Canadian athletes. Having exhausted its domestic market, the firm must decide how best to keep growing. The choice they are facing is whether to enter the overseas markets by exporting the sports drink, or to stay in the Canadian market with an extension product. After initial research the following decision tree has been presented to the General Manager:



- (a) Explain the difficulties that a firm faces when deciding to enter a foreign market. *[5 marks]*
- (b) (i) Explain the difference between decision nodes and chance nodes. *[2 marks]*
- (ii) Work out the expected values of each decision. *[2 marks]*
- (iii) What decision should the firm take? *[1 mark]*
- (c) Explain **two** advantages and **two** disadvantages of using decision trees to solve business problems. *[4 marks]*
- (d) Outline a marketing plan for the sports drink to support its entry into overseas markets. *[6 marks]*