IB DIPLOMA PROGRAMME
PROGRAMME DU DIPLÔME DU BI
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BUSINESS AND MANAGEMENT
STANDARD LEVEL
PAPER 2

Tuesday 18 November 2003 (morning)

1 hour 30 minutes

INSTRUCTIONS TO CANDIDATES

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

1. Home Before Midnight

Home Before Midnight is a successful franchise which sells casual clothes and footwear to teenagers in shops throughout Europe.

The franchiser focuses on finding suitable designers and manufacturers of the clothes and footwear. The franchiser also promotes the brand name.

In recent years the franchise has been criticised for purchasing clothes from producers in poor countries that employ child labour and provide unsafe working conditions for their employees.

To counter this criticism, the managing director of *Home Before Midnight* has decided to continue to purchase from developing countries but has begun negotiations with a number of worker co-operatives in Latin America and Asia. These worker co-operatives have a reputation for providing fairer working conditions for employees.

(a) Explain **four** advantages to the franchisee, of taking out a franchise with *Home Before Midnight*. *[4 marks]*

(b) Use a PEST/STEP framework to identify external factors that could have an impact on *Home Before Midnight*. *[4 marks]*

(c) Discuss the potential human resource and marketing benefits to *Home Before Midnight* if they were to become a socially responsible organization. *[6 marks]*

(d) Discuss the potential personnel and marketing difficulties multinational companies may experience when establishing operations in Less Economically Developed Countries. Your answer should be from the perspective of the multinational. *[6 marks]*

2. XYZ Ltd

Fit and Well was launched in 1980 as a get well tonic drink by *XYZ Ltd*. Its advertisements in the 1980s showed a caring mother giving an unwell child Fit and Well. After initial customer resistance to the product, sales of the drink grew steadily for many years, but sales growth slowed dramatically in the mid 1990s.

To counter this problem the marketing director has proposed that the drink be repositioned as a glucose energy drink for active and busy people.

Market research revealed that Fit and Well had a reputation for quality and could command a high price. The drink was mainly sold in one litre bottles through chemist shops (pharmacy).

The financial director at Fit and Well is concerned that *XYZ Ltd* has launched too many new products in recent years and whilst some of these have been successful, others have not proved to be financially viable. He thinks that the company should take the opportunity to review its product range.

Existing products	**Main features**
Fit and Well	Market leader, low sales growth, highly profitable.
Fresh and Fruity	High market share and growth in sales. Profitable, but under threat from new entrants.
Grubble Tea	Low market share in a popular market sector. Grubble Tea is in danger of being squeezed out of the market.
Yogi Milk	This yoghurt based drink commands little respect in a declining market segment.

(a) Draw and label a product life cycle for Fit and Well from launch in 1980 to the mid 1990s. *[3 marks]*

(b) Explain **three** factors that could account for the decline in sales growth in the mid 1990s. *[3 marks]*

(c) Design an appropriate marketing strategy for Fit and Well which will enable it to be repositioned as a glucose energy drink for active and busy people. *[6 marks]*

(d) Use product portfolio techniques such as Ansoff's Matrix and Boston Consulting Group Matrix to:

(i) identify potential growth strategies and

(ii) analyse the existing product range. *[8 marks]*

3. Singh and Patel Ltd

Singh and Patel Ltd employ 200 manual workers at their factory which specialises in low cost, self assembly furniture. *Singh and Patel Ltd* are anxious to expand their business but are constrained by problems with recruiting labour. Recent investment in new technology has increased labour productivity by ten percent but the personnel director is concerned that high labour turnover means that a great deal of time is spent training new recruits. In an average year 60 manual workers leave *Singh and Patel Ltd.* They complain that the work is dull and repetitive and that the workplace is unfriendly.

Andrew Breakey, the personnel director, is considering the following changes to address the problems:

❶ offering a $500 bonus to each employee for each full year of completed employment
❷ replacing the existing time rate system with a piece rate system
❸ demonstrating that promotion opportunities exist
❹ exploring opportunities for job enrichment, rotation and enlargement
❺ promoting group morale and cohesiveness
❻ improving working conditions
❼ improving the process of employee selection, induction and training.

(a) What is the annual percentage rate of labour turnover for manual labour at *Singh and Patel Ltd* in an average year? *[2 marks]*

(b) Assess the potential disadvantages of high labour turnover for an organization such as *Singh and Patel Ltd.* *[4 marks]*

(c) Analyse the potential advantages and disadvantages for *Singh and Patel Ltd* of introducing a piece rate system of pay to replace the time rate system. *[6 marks]*

(d) To what extent will Andrew's proposals help *Singh and Patel Ltd* achieve their objectives? Use appropriate motivational theory to support your answer. *[8 marks]*

4. Stefan Smith

Stefan Smith owns and controls a dairy farm in Somerset in the United Kingdom. Having been in business for several successful years, Stefan is considering taking out a bank loan to purchase a new piece of machinery costing \$500 000. A family friend has also offered to join the business as an equal partner, and this would enable Stefan to finance the new machine and avoid a bank loan. Stefan realises that the new machinery will replace traditional farming techniques and that he will need to terminate the employment of 20 local farm labourers. The impact on the local community and economy is likely to be considerable since there are few alternative opportunities for employment. There are also environmental concerns because the new techniques will involve increased usage of chemicals.

Stefan estimates that the machinery will generate the following net income over the next five years:

Table 1 (all figures in \$s)
Net income generated

Year 1	Year 2	Year 3	Year 4	Year 5
100 000	125 000	125 000	150 000	180 000

Stefan has calculated the following figures for the whole farm:

Table 2

Fixed costs	\$650 000
Variable costs	\$1.00 per litre of milk
Selling price	\$2.30 per litre of milk
Farm capacity	750 000 litres of milk per annum

(a) Use the data in Table 1 to calculate the payback period for the \$500 000 investment. *[2 marks]*

(b) Using the data in Table 2, draw a break even chart for Stefan showing the break even point and the margin of safety and profit for the whole farm if it operates at 80 % capacity. *[6 marks]*

(c) Explain the potential advantages and disadvantages of funding the purchase of the new machine through a bank loan or investment by a family friend as an equal partner. *[4 marks]*

(d) Identify the various stakeholders associated with Stefan's business and discuss whether conflict between them is inevitable. *[8 marks]*

5. Ashley Gardener Limited

Ashley Gardener Limited is a family run business producing a range of catering equipment. Ashley is keen to expand his business and is negotiating with his bank manager the terms of a loan. Ashley's children have warned him that many economists are forecasting an economic recession and higher interest rates. They are also concerned that Ashley often finds it difficult to pay his suppliers on time and that this is causing some of them to demand payment by cash.

Appropriate information is given in Tables 1 and 2.

Table 1
(as at 31st January 2002)

	$000
Machinery	360
Stock	12
Cash at bank	22
Land and buildings	420
Fixtures and fittings	53
Debtors	38
Creditors	68
Share capital	600
Reserves	237

Table 2
(for the year ending 31st January 2002)

	$000
Net profit before interest and tax	100
Sales	1300

(a) From the data given in Table 1 construct a balance sheet for *Ashley Gardener Ltd*. *[6 marks]*

(b) Explain why organizations such as *Ashley Gardener Ltd* need working capital. *[2 marks]*

(c) Using appropriate financial ratios comment on the profitability, efficiency and liquidity of *Ashley Gardener Ltd.* *[8 marks]*

(d) What are the potential implications for *Ashley Gardener Ltd* if it has a large proportion of loan compared to share capital? *[4 marks]*