



**BUSINESS AND MANAGEMENT
HIGHER LEVEL
PAPER 1**

Monday 16 May 2005 (afternoon)

2 hours

INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- Read the case study carefully.
- Section A: answer all the questions.
Section B: answer one question.

SECTION A

Answer **all** the questions in this section.

1. (a) Explain **three** benefits for *Gadgets2u.com* of adopting a matrix structure (line 25). [6 marks]
- (b) (i) Some communication problems have started to emerge at *Gadgets2u.com*. Identify reasons why these problems have occurred. [3 marks]
- (ii) Examine possible strategies to overcome the problems identified in (b)(i). [5 marks]
2. (a) Explain the possible effects on *Gadgets2u.com* of the forecast European Union growth figures given in *Appendix 1*. [4 marks]
- (b) Evaluate how each element of the marketing mix could be adapted to reduce the seasonal nature of *Gadgets2u.com*'s sales. [12 marks]

3. The gross and net profit margins for *Gadgets2u.com* are given in the table below.

	2003	2004
Gross profit margin (%)	30.95	34.84
Net profit margin (%)	4.96	13.64

- (a) (i) What are the formulae used to calculate the gross and net profit margins? [2 marks]
- (ii) Discuss the factors that could have led to the changes shown in the values of these ratios. [6 marks]
- (b) (i) What is the difference between a cost and profit centre? [3 marks]
- (ii) Analyse the advantages **and** disadvantages of running the new warehouse as a cost centre. [9 marks]
4. Discuss the costs and benefits for *Gadgets2u.com* of adopting a more ethical approach to the sourcing of its products. [10 marks]

SECTION B

Answer **one** question from this section.

5. Sam has been arguing for diversification into retail operations to boost the rate of growth of the firm. He is proposing setting up a shop that will sell five core product ranges. He has prepared the following financial analysis of the expected sales, prices and costs of these product ranges. The overheads of the shop are expected to be €180 000.

Product	Mobile phones	Digital cameras	Handheld computers	Music players	Computer accessories
Expected sales volume	2 750	700	850	1 500	2 500
Price (Euro)	95	220	180	125	60
Variable cost (Euro)	60	195	170	105	30

- (a) Using the sales performance and forecasts in *Appendix 2*, prepare a three year moving average. Plot the moving averages as a graph and extrapolate the trend of sales to 2008. [4 marks]
- (b) (i) Calculate the total contribution that each of the products shown in the table above makes to overheads. [3 marks]
- (ii) The board of directors has decided that it may not be worth the shops stocking handheld computers. Assess this decision. [5 marks]
- (c) Using all the information above and from the case study evaluate the arguments for and against the diversification into retail operations that Sam is proposing. [8 marks]

6. *Gadgets2u.com* is considering international expansion to increase the proportion of its sales from outside Europe. The board of directors has a choice between expansion in Asia, expansion in the US or developing a new extended product range in Europe. It does not have the financial resources for all projects and so needs to make a decision. Table 1 below summarizes the result of the market research.

Table 1 Expected returns from US, Asian and European expansion

US expansion	Probability (%)	Revenue (Euro)
High sales	40	275 000
Average sales	25	195 000
Low sales	35	100 000
Asian expansion		
High sales	60	225 000
Average sales	35	135 000
Low sales	5	55 000
European expansion – expanded product rate		
High sales	35	385 000
Average sales	45	165 000
Low sales	20	120 000

Table 2 Expansion costs

	Cost of expansion (Euro)
US expansion	100 000
Asian expansion	85 000
European expansion	135 000

- (a) Construct a decision tree showing which project is best on financial grounds. Show all working, with an appropriate key. [6 marks]
- (b) Assess additional non-financial factors that the board of directors should take into account when deciding on which project to implement. [6 marks]
- (c) Evaluate the impact that this expansion may have on the financial statements (balance sheet and profit and loss account) of *Gadgets2u.com*. [8 marks]