



88075011

**BUSINESS AND MANAGEMENT
HIGHER LEVEL
PAPER 1**

Monday 19 November 2007 (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 the usefulness to *Gladrags Ltd* of segmenting their market. [6 marks]
- (b) Prepare a suitable marketing mix to support the launch of the “Sassy” brand of designer clothing. [10 marks]

2. (a) “There is a formal organizational structure at *Gladrags Ltd* with a tall hierarchy and a narrow span of control” (lines 98-99).

Analyse the advantages **and** disadvantages to *Gladrags Ltd* of this type of organizational structure. [8 marks]
- (b) Explain the benefits to *Gladrags Ltd* of “introducing more flexible working practices” (line 119). [4 marks]

3. (a) Compare and contrast *batch production* and *mass production*. [8 marks]
- (b) Analyse the advantages **and** disadvantages to *Gladrags Ltd* of introducing just-in-time (JIT) stock control. [10 marks]

4. Discuss the **four** strategic options for the future direction of *Gladrags Ltd* (lines 151-157). Use the PEST analysis (Appendix 2) and other information provided in the case study to support your answer. [14 marks]

SECTION B

Answer **one** question from this section.

5. Following the request from the board of directors, the finance manager, Colin Buckley, prepared more outline budgets for 2007 and also produced a detailed variance analysis of recent budgets. These were discussed at the last board meeting. Some of the variances showed worrying trends, particularly related to sales levels and wage and administration costs, where significant negative variances were identified.

Following personal criticism of his role as finance manager, Colin Buckley resigned from *Gladrags Ltd*. In response, the board of directors appointed external business consultants, *Hansons*, to develop a business plan for the year 2007 to 2008.

Included in the plan were the following financial objectives and targets:

- improving gross profit margin by examining supplier costs
- taking emergency measures to address cash flow issues
- improve profitability performance to match industry averages of 30% gross profit margin and 12% net profit margin
- increasing investment in new production and communication technologies.

- (a) (i) Using a suitable example, explain what is meant by a *negative variance*. [3 marks]
- (ii) Examine **one** advantage and **one** disadvantage for *Gladrags Ltd* of preparing budgets. [6 marks]
- (b) (i) Identify **three** appropriate measures *Gladrags Ltd* could take to improve its cash flow. [3 marks]
- (ii) Discuss whether the objectives and targets set by *Hansons* are achievable. Use ratio analysis and other financial and non-financial information provided in the case study to support your answer. [8 marks]

6. Following personal criticism of his role as finance manager, Colin Buckley resigned from *Gladrags Ltd.* In response, the board of directors appointed external business consultants, *Hansons*, to develop a business plan for the year 2007 to 2008.

Included in the business plan were the following recommendations:

- increase investment in new production and communication technologies
- introduce a Total Quality Management (TQM) system to meet International Standards Organization (ISO) quality standards.

Naseem, who is a keen supporter of TQM, recently visited several European clothing manufacturers and returned determined to improve the quality and efficiency of operations at *Gladrags Ltd.* The recommendation from *Hansons* made Naseem even more determined to modernize. He is investigating two computer-aided design and manufacturing packages, which will help increase the level of automation in production and reduce overheads.

Naseem has prepared the following financial information for each package. He estimates the cost of installing Package A to be \$280 000, which will include the provision of staff training. Package B is more expensive to install at \$480 000, but it is more flexible, can be more easily upgraded and provides additional quality features.

	Package A	Package B
	\$000	\$000
Initial cost	280	480
Cost savings		
Year 1	140	120
Year 2	110	120
Year 3	100	160
Year 4	40	180
Year 5	30	130

- (a) Explain **two** purposes of a business plan. [4 marks]
- (b) Examine **one** advantage and **one** disadvantage of introducing Total Quality Management (TQM) systems at *Gladrags Ltd.* [6 marks]
- (c) Calculate the payback period and net present values for Package A and Package B. Calculations should be made to **2 decimal places**, based on the discount factors given below.

Year 1	0.962
Year 2	0.925
Year 3	0.889
Year 4	0.855
Year 5	0.822

Using these calculations and other financial and non-financial information, discuss the merits of the two packages. [10 marks]