



88075012

**BUSINESS AND MANAGEMENT
HIGHER LEVEL
PAPER 2**

Tuesday 20 November 2007 (morning)

2 hours 30 minutes

INSTRUCTIONS TO CANDIDATES

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

1. Goal plc

Goal plc is a South American football club. Although the players are highly motivated and united as a team, they have won very few games. Loyal supporters and shareholders are worried about relegation to a lower league and a significant fall in revenue and potential cash flow problems as a result. The management team is considering three possible options to improve the team’s performance and attract more spectators.

The expected returns from each option depend on the prevailing economic conditions. These economic conditions and the probability of each occurring are shown in the table below.

	Expected return (\$)		
	Improved	Unchanged	Worsened
	20%	50%	30%
Option 1. Buy new players from top European teams Cost \$ 2 m	5 m	4 m	1 m
Option 2. Build a new modern stadium on a nearby underdeveloped site Cost \$ 3 m	6 m	5 m	(-1 m)
Option 3. Renovate the stadium and the training facilities Cost \$ 1 m	3 m	2 m	1 m

Option 1 will improve team performance, attract more supporters and increase revenue. However, with the introduction of new players there are concerns about possible clashes of culture and the effect on the motivation of existing players. **Option 2** will take four years to complete. Local politicians, supporters and players favour this option. Tax concessions and grants have been offered for the redevelopment. However, a pressure group opposes the redevelopment because of increased traffic congestion. The financial director and the shareholders, concerned about the current lack of funds, prefer **Option 3**, which will take one year to complete.

- (a) Construct a fully labelled decision tree. (*Show all your working*) *[6 marks]*
- (b) Explain **one** advantage and **one** disadvantage for *Goal plc* of using decision trees. *[4 marks]*
- (c) Evaluate the **three** options and recommend to the management of *Goal plc* the option that they should choose. *[10 marks]*

2. Toyota

The multinational Japanese car company, *Toyota*, has increased its market share in Japan and undergone rapid worldwide growth. By 2005, it had 46 factories in 26 countries. *Toyota* avoided trade barriers in Europe and the USA by building factories inside those areas. *Toyota* has world-leading manufacturing technology, rapid product development and total devotion to customer satisfaction.

Central to *Toyota's* manufacturing is just-in-time (JIT) production and a focus on high quality through continuous improvement (Kaizen). Quality control is the responsibility of the fully empowered production line workers.

Toyota's efficient product development process results in the introduction of new models every two years. There are over 60 existing models in Japan with many of these adapted for the American and European markets. In America, its entry into pick-up trucks and sport-utility vehicles (SUVs) has been responsible for steady growth in this region.

Toyota's culture emphasises customer satisfaction and employees setting themselves ever more demanding targets. The challenge for *Toyota* is how to sustain its quality culture as the company continues to grow globally.

[Source: adapted from “The Car Company in Front – Special Report: Toyota”, *The Economist*, 29 January 2005]

- (a) Using Ansoff's Matrix, explain the growth strategies used by *Toyota*. [6 marks]
- (b) (i) Explain why *Toyota* can be described as a multinational company (MNC). [2 marks]
- (ii) Identify **three** advantages for *Toyota* of locating production plants overseas. [3 marks]
- (c) Discuss the factors that have led to *Toyota's* worldwide success. [9 marks]

3. Disney goes to China

The *Walt Disney* Company, sometimes described as a global conglomerate, has revealed plans to build a theme park in Mainland China. It established a presence in the country with the opening in 2005 of a multi-billion dollar theme park in Hong Kong.

The chief operating officer said that the company's primary targets were the development of a theme park on the mainland, launching the *Disney* Channel and building a presence on new media such as broadband and cell phones.

The *Walt Disney* Company sees great potential in China despite the fact that the company loses billions of dollars a year in revenue through product piracy of its Hollywood films, cartoons and T-shirts.

Local newspapers have reported that *Disney* will provide technology and capital for a 51% stake in a joint venture with a Shanghai government-backed group that would contribute land.

Analysts have commented that a second theme park in China, the third in Asia, could present a sizeable risk for *Disney*. It has not been immediately successful with the development of new theme parks in the past and further market research is recommended.

The Hong Kong theme park, however, is expected to attract tens of millions of visitors a year, many of whom will come from fast growing mainland provinces nearby. The theme park is also expected to provide a big boost for the Hong Kong economy.

[Source: adapted from Nic Hopkins, "Disney Plans to Take Mickey to Park in Mainland China", *The Times*, 12 July 2005]

- (a) Explain why the *Walt Disney* Company can be described as a global conglomerate. [3 marks]
- (b) (i) With reference to the *Walt Disney* Company, analyse the potential effects on **two** stakeholder groups of a global conglomerate investing in China. [6 marks]
- (ii) Explain **one** advantage and **one** disadvantage for the *Walt Disney* Company of entering China as part of a joint venture. [4 marks]
- (c) Discuss the types of market research that the *Walt Disney* Company should carry out before deciding whether to build a theme park. [7 marks]

4. Scoot Free

Scoot Free is a small manufacturing company, which produces and retails three types of scooters. The production of each scooter is highly specialised in terms of the labour intensive production teams and the materials. *Scoot Free* is a customer-focussed company. Their first model, the “Adult Scoot”, is recognized for its quality and enabled the company to establish its well-known local brand name. *Scoot Free’s* objective is growth while being profitable.

Three profit centres are used (Junior Scoot, Teen Scoot and Adult Scoot). The information for each model is shown below.

	Junior Scoot (targeted at young children age 5-12) \$ 000	Teen Scoot (targeted at teenagers age 13-18) \$ 000	Adult Scoot (for all adults) \$ 000	Total \$ 000
Revenue	110	140	160	410
Direct labour costs	40	60	90	190
Direct material costs	30	50	60	140
Allocated indirect costs	20	20	20	60

(A full costing method is used to allocate the indirect costs)

Profit/Loss	20	10	(10)	20
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There has been a fall in *Scoot Free’s* profits in the last two years. Management is thinking of eliminating the unprofitable model – “Adult Scoot”. This option will result in some redundancies. However, the elimination of a single model will not result in a reduction in the fixed/indirect overheads. Management is also thinking of implementing team-based profit related pay.

- (a) Describe **two** possible benefits for *Scoot Free* of using different profit centres. [4 marks]
- (b) (i) Calculate the contribution each product makes to fixed costs. [2 marks]
- (ii) Examine how appropriate it would be for *Scoot Free* to use the absorption method of costing. [6 marks]
- (c) Evaluate the managers’ proposal to eliminate the unprofitable product. [8 marks]

5. Serco plc

Serco is a private sector company that operates government contracts such as cleaning and catering. They employ almost 48 000 people around the world. Six years ago, they moved from the public sector to the private sector of the economy. In that time the company doubled turnover to nearly £2000 m a year and trebled profits to about £100 m.

The chief executive, Christopher Hyman, has instilled many of his personal values at *Serco*. He believes that profit will be a natural by-product if the company aims to have a positive impact on society.

The company culture is based on:

- ethical responsibility
- a relatively flat management structure
- open and informal relationships
- decisions being taken as close as possible to the point at which a service is delivered
- flexibility and a constant focus on adding value
- recognizing and harnessing the power of individuals
- forming productive partnerships with employees and customers through being open and collaborative.

“We’re passionate about communication and work to ensure it’s always a two-way process”, says Christopher Hyman. “All our employees have the opportunity to be involved in regular meetings. Over half have access to team briefings and 20% publish their own newsletters, supplementing the company-wide magazine “Our World”.”

[Source: adapted from *The Guardian*, 24 February 2006 and www.serco.co.uk/people, February 2006]

- (a) Define the term *ethical responsibility*. [2 marks]
- (b) Explain how a flat management structure could lead to more “open and informal relationships”. [6 marks]
- (c) With reference to *Serco*, explain how organizational objectives change when organizations move from the public sector to the private sector. [4 marks]
- (d) With reference to appropriate motivation theory, analyse the likely impact of *Serco*’s corporate culture on the level of employee motivation. [8 marks]

6. News Corporation

News Corporation, a global media conglomerate, faces two fundamental issues in relation to its traditional media businesses. The first is what to do about the Internet. The second issue is how they should adapt their product portfolio in response to rapidly changing technologies. Its film and television businesses are threatened by digital piracy; its broadcast-television businesses are losing advertising revenue to the Internet and the satellite-television businesses now face stronger rivals.

News Corporation is convinced that it needs to take advantage of economies of scale and has no intention of splitting itself up. The firm's revenues and profits are growing at a double-digit rate, faster than rivals.

Keeping up with technology in one part of *News Corporation's* businesses sometimes damages another part. For instance, they supply digital video recorders at below cost price. However, these are disruptive for advertising-funded television as they allow people to watch programmes when they like and fast forward through advertisements.

Its most immediate challenge is from the cable industry, which is now offering a complete package of digital television, broadband and telephone services. In response, *News Corporation* is adding broadband and telephone to its product portfolio. It has acquired a range of companies including the Internet service provider *EasyNet* to add these services to its portfolio.

News Corporation's newspaper businesses, are suffering from competition from the Internet as young people are using the Internet to get their news. *News Corporation* has recently purchased a number of web sites with a relatively young demographic. Their challenge is to generate more advertising revenue from these web sites. To do this they plan to charge a premium price to advertisers.

[Source: adapted from *The Economist*, 19 January 2006]

- (a) Define the term *premium pricing*. [2 marks]
 - (b) Describe the changes taking place in *News Corporation's* product portfolio. [4 marks]
 - (c) Explain how being a media conglomerate enables *News Corporation* to benefit from economies of scale. [6 marks]
 - (d) Discuss how external influences are shaping *News Corporation's* strategy. [8 marks]
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