



88115011



**BUSINESS AND MANAGEMENT  
HIGHER LEVEL  
PAPER 1**

Thursday 17 November 2011 (afternoon)

2 hours 15 minutes

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**INSTRUCTIONS TO CANDIDATES**

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

**SECTION A**

Answer **two** questions from this section.

1. (a) Describe Andrew Grandin’s:
- (i) chain of command at *Reach Out* [2 marks]
  - (ii) span of control at *Reach Out*. [2 marks]
- (b) Using the case study, comment on **two** sources of income (current or potential) for *Reach Out* **other than** the therapist scheme. [4 marks]
- (c) Analyse the social **and** economic impacts of the actions of the non-profit organization *Reach Out*. [7 marks]
2. (a) Describe Laura Chan’s desired pricing strategy for *Reach Out*’s PECS cards. [4 marks]
- (b) Explain **two** reasons why Neil Johnson prepared a STEEPLE analysis for *Reach Out* (line 31). [4 marks]
- (c) Neil Johnson wanted to “outsource the therapist scheme management role to an independent freelancer” (line 110). Examine whether *Reach Out* will benefit from outsourcing this role. [7 marks]
3. (a) Define the following terms:
- (i) *commission* (line 40) [2 marks]
  - (ii) *dismissal* (line 109). [2 marks]
- (b) Using the additional information on page 3 about publishing company B, calculate (*show all your working*):
- (i) the payback period (to the nearest month) [2 marks]
  - (ii) the average rate of return (ARR). [2 marks]
- (c) Neil Johnson “eventually decided to donate the \$10000 himself” (line 36). Analyse the consequences for *Reach Out* of Neil’s decision. [7 marks]

**SECTION B**

Answer *the compulsory question from this section.*

- 4. (a) Describe **two** advantages of preparing a budget for *Reach Out* (line 32). *[4 marks]*
  
- (b) Neil Johnson tried to convince Laura Chan that **(Option 2)** would be a worthwhile investment by using a break-even model (lines 130–131). Explain **two** limitations of using break-even analysis as a decision-making tool. *[4 marks]*
  
- (c) Explain **two** key functions of management, applying to *Reach Out* the theories of writers such as Fayol, Handy or Drucker. *[4 marks]*
  
- (d) Evaluate the value of Neil Johnson’s fishbone diagram (Appendix 2) as a decision-making tool. *[8 marks]*

**Additional information for question 3 (b)**

**Financial data for publishing company B**

PECS cards setup cost: \$100 000.

Estimated return from selling PECS cards over 4 years:

|        |          |
|--------|----------|
| Year 1 | \$20 000 |
| Year 2 | \$30 000 |
| Year 3 | \$40 000 |
| Year 4 | \$60 000 |

**SECTION C**

Answer *the compulsory question from this section.*

5. Neil Johnson and Laura Chan knew they had to resolve their differences. They asked a management consultant, Raj Gupta, for arbitration of their conflicting views over the future strategic direction of *Reach Out*. Raj had a meeting with both of them. Reluctantly, Laura accepted Raj’s recommendation that they pursue only **Option 2**, developing a family brand.

After conducting a survey of the parents who use *Reach Out*’s therapists (*Items 1.1 and 1.2*), Raj further recommended organizing *Reach Out* into two distinct profit centres\*:

- Laura will run the “Service Centre”, training Andrew Grandin and working with the therapists and families. Laura’s target is to achieve qualitative improvements to the therapist scheme. This will be measured by feedback from both parents and therapists.
- Neil will run the “Marketing Centre”, developing a family brand for *Reach Out*. Neil’s target is to raise \$120 000 annually by selling merchandise with the *Reach Out* name and logo (*Item 2*).

Laura was relieved that by implementing **Option 2**, **Option 1** would be rejected and the pricing would remain the same. Also *Reach Out* would not have to rely on sponsorship (**Option 3**) from *N-Pharma*.

However, she was still concerned that by allowing Neil to focus on developing marketing opportunities *Reach Out* would be changing its strategic direction away from the core business and from their mission to introduce subsidized PECS cards. Laura was also unsure about merchandising for a small business such as *Reach Out* (*Item 3*). Neil argued that subsidized PECS cards could only be introduced once *Reach Out* had the sufficient finance. He hoped that **Option 2** would enable this. He recognized that branding of a charity would be difficult (*Item 4*), but he was convinced that if they could gain greater recognition then this was the way forward. He was also still concerned that Laura did not fully address his worries about Andrew.

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\* profit centres: in the case of *Reach Out*, these are centres that generate surplus revenue minus costs

*(This question continues on the following page)*

*(Question 5 continued)*

- (a) Identify **one** type of on-the-job training and **one** type of off-the-job training that Laura Chan could use with Andrew Grandin. *[2 marks]*
- (b) (i) Using Item 2, calculate the quantity of merchandise that *Reach Out* must sell in order to meet Neil Johnson’s target (*show all your working*). *[2 marks]*
- (ii) Using the case study and Items 1.1 and 1.2, identify **two** areas of concern with the therapist scheme and explain how Laura Chan can make qualitative improvements to these concerns. *[5 marks]*
- (c) Analyse the value to *Reach Out* of organizing it into two distinct profit centres. *[9 marks]*
- (d) Using Lewin’s force field analysis and the information contained in the case study and Items 1–4, evaluate Raj Gupta’s recommendation to pursue **Option 2** and to reorganize *Reach Out*. *[12 marks]*

**Additional information is on the following pages.**

**Additional information**

**Item 1.1: Survey results from parents who use *Reach Out* therapists summarized by Raj Gupta**

| How satisfied were the respondents? |               |      |                  |      |
|-------------------------------------|---------------|------|------------------|------|
| Quality criteria                    | Satisfied (%) |      | Dissatisfied (%) |      |
|                                     | Moderately    | Very | Moderately       | Very |
| Enthusiasm of therapist             | 20            | 50   | 20               | 10   |
| Knowledge of therapist              | 40            | 20   | 30               | 10   |
| Punctuality of therapist            | 20            | 10   | 50               | 20   |
|                                     |               |      |                  |      |
| Frequency of sessions               | 20            | 10   | 30               | 40   |
| Creativity of sessions              | 30            | 40   | 20               | 10   |
| Price of sessions                   | 30            | 70   | 0                | 0    |
|                                     |               |      |                  |      |
| Communication with <i>Reach Out</i> | 10            | 0    | 60               | 30   |
| Communication with therapist        | 30            | 20   | 20               | 30   |

**Item 1.2: Survey results (extracts from parents interviews) summarized by Raj Gupta continued ...**

- “For me, the most difficult thing is to get in touch with someone at *Reach Out* – I had to rearrange our appointment and it took six phone calls before I finally managed to speak to someone.”
- “The therapists are great, young, enthusiastic and very caring but what I would really like is more educational materials that we can use at home with my son.”
- “The service is very cheap compared to other private clinics. I would like to have more sessions but this has been difficult to organize. Either the therapist is busy or no others seem to be available.”
- “I wish we had some T-shirts with the *Reach Out* logo on them to give to my friends.”
- “I first heard about *Reach Out* from my friend and it sounded like just what we needed. I kept phoning and e-mailing and at last after three weeks we managed to arrange our first session – and at the last minute the therapist e-mailed me to say they would have to rearrange – it was most inconvenient.”
- “Who is in charge at *Reach Out*? It is difficult having the same conversation with three different people who don’t seem to talk to each other!”

**Item 2: Merchandising as suggested by Neil Johnson**

| Merchandise  | Average price per product sold | Average variable cost per product produced | Fixed costs | Neil’s target |
|--|--------------------------------|--|-------------|---------------|
| T-shirts, computer mouse mats, writing pads, calendars, soft toys and mugs | \$10                           | \$5  | \$100 000   | \$120 000     |

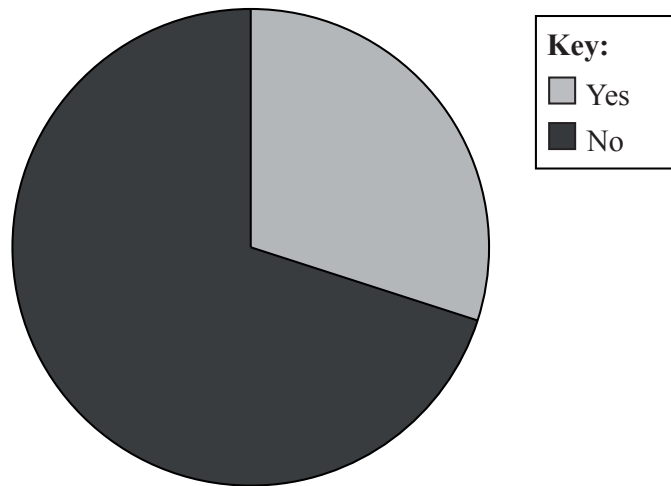
### Item 3: Merchandising for small businesses

According to the *Centre for Business Excellence*, 60% of businesses that turn to merchandising to generate funds do not succeed in the long run. The successful businesses were already well-established ones with a strong brand identity operating in the mass-market\*. Their sales tended to be impulse buying by visitors to a fixed attraction, for instance a museum or a theme park shop. Businesses that relied too heavily on merchandising for long-term financing usually experienced cash-flow fluctuation and uncertainty.

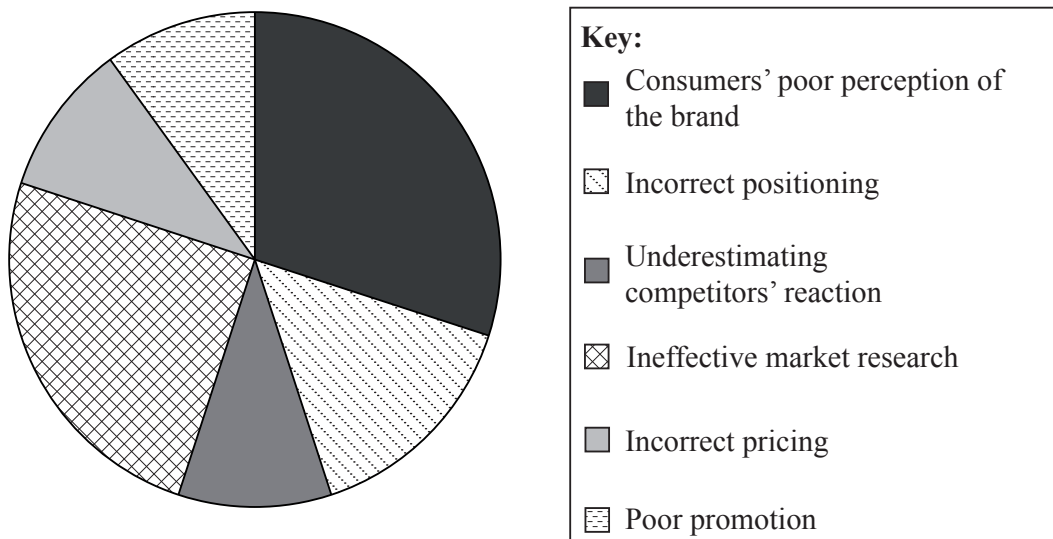
\* mass-market: wide ranging demand from undifferentiated consumer segments

### Item 4: Branding – is it worth it?

50 charities were asked – has branding increased your income?



500 businesses from all sectors of the economy were asked – reasons for brand failure?



[Source: adapted from [www.bplans.com/](http://www.bplans.com/), 16 April 2011]