

**BUSINESS AND MANAGEMENT
STANDARD LEVEL
PAPER 2**

Wednesday 21 May 2003 (morning)

1 hour 30 minutes

INSTRUCTIONS TO CANDIDATES

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

1. *TCP*

TCP is a manufacturer of mechanical diggers and construction equipment. Encouraged by the success of a rival company, *Caterpillar*, they have capitalized on their brand awareness with a range of clothing for men and women. The range includes “rugged” fleeces, trousers and padded jackets, sold under the “Digger” label. Fabrics, design and styling copied from work wear used on construction sites has become a feature of the clothing and shoes, as it is hardwearing and perfect for casual wear. Future projects include a range of DIY clothing and powerful tools. *TCP* hope that this will extend their professional reputation to regular home improvement enthusiasts.

- (a) *TCP* are aiming to target the “Digger” brand at the market segment of professional males and females aged 22-35.
- (i) Describe what is meant by *segmentation*. [2 marks]
- (ii) Evaluate the segmentation factors *TCP* need to take into account to ensure success in this market. [6 marks]
- (b) Explain the purpose of branding and assess the likely success of the “Digger” brand for *TCP*. [6 marks]
- (c) *TCP* needs to research the market for their DIY clothes and powerful tools. Explain **three** techniques that they could use to best identify their target market. [6 marks]

2. Star Alliance

Established in 1997, *Star Alliance* is a partnership of the independent airlines shown in table 1. One of the benefits of the strategic alliance is that customers receive loyalty bonus points whenever they fly with one of the airlines. Points can be used to get extra flights, holidays and gifts. A recent study of the opinions of passengers who fly regularly has produced the following information.

Table 1

	Price	Quality of service	Efficiency record
Air Canada	high	high	high
All Nippon Airways	high	medium	medium
Ansett Australian	low	low	low
Austrian Airlines Group	medium	high	high
bmi British Midland	medium	medium	high
Lufthansa	low	medium	medium
Mexicana	low	high	medium
Singapore Airlines	high	high	high
Thai International	high	low	medium
Varig Brazilian Airlines	medium	low	low

Recently, due to a fall in demand for seats and overcapacity, one of the airlines Ansett Australian has had to stop trading; others have cancelled long haul and domestic routes. This has led to a dramatic loss of jobs in the airline industry.

- (a) Explain what is meant by a *strategic alliance*? [2 marks]
- (b) Analyse why the airlines decided to join together to form a strategic alliance. [5 marks]
- (c) How should the airlines deal with issues of overcapacity and impending loss of jobs? [4 marks]
- (d) Draw a product position map for the airlines within *Star Alliance* (shown in table 1). [6 marks]
- (e) What type of customer should be targeted by Lufthansa airline? [3 marks]

3. *Delta Ltd Fruit Growers*

Financial information

	2000 \$ m	2001 \$ m
Fixed assets	1.6	1.7
Share capital	2.24	1.01
Long term liabilities	1.44	1.44
Cash in hand	0.02	0.01
Bank overdraft	0.23	0.15
Creditors	0.24	0.43
Debtors	0.7	0.6
Accumulated profit/loss	(1.43)	(0.52)
Stock	0.4	0.2
Sales revenue	0.832	1.08
Cost of sales	0.477	0.49
Overheads	0.41	0.442

- (a) (i) Calculate the working capital for 2000 and 2001. *[2 marks]*
- (ii) Produce a balance sheet for 2000 and 2001. *[6 marks]*
- (b) Produce a profit and loss account for 2000 and 2001. *[5 marks]*
- (c) Calculate **four** ratios for each of the years 2000 and 2001 and comment on the efficiency, liquidity and profitability of the company. *[7 marks]*

4. Natalia Artusa works for a mail order company, *Stylish*, who sell furniture for houses. In 2002 the company was restructured and customer service staff were encouraged to work from home rather than in a central office. Natalia's team consists of eight telephonists whose job is to answer customers' calls and e-mails and process their orders. The team now work independently from home, and send information through the internet to the distribution department who process the orders for customers and arrange payments.

Complaints have been received from customers about difficulty in speaking to customer service staff. Natalia is finding it difficult to maintain quality within the team and arrange training to ensure an efficient service is offered.

Currently the teams wages are based on a flat monthly payment regardless of the number of orders processed but *Stylish* is considering changing the system so that wages are based on the number of orders placed each day and targets set by Natalia monthly. The more orders processed and targets reached, the higher the wages received by the staff. However, Natalia is concerned that the quality of products may deteriorate as staff may not spend as much time on each order.

- (a) Explain the benefits to *Stylish* of restructuring the company to ensure that the customer service team work from home, rather than from a central office. [4 marks]
- (b) Outline **two** advantages and **two** disadvantages for Natalia and her team of working from home. [4 marks]
- (c) Assess the communication barriers that might result from working at home rather than working as a core team and suggest **three** ways in which Natalia could improve communication. [6 marks]
- (d) Evaluate the current and proposed methods of payment in terms of quality and meeting targets. [6 marks]

5. Helen Summers is planning to open a travel agency and is unsure whether to create her own company *Summers Holidays* or to buy a franchise opportunity and invest in *Happy Holidays* an international franchise company. Helen has contacted her bank to negotiate a loan and has been told that she needs to produce a business plan outlining the objectives of the company and what strategies and tactics she intends to use to achieve her objectives. The bank also recommends that Helen carries out market research in detail to find out if there is a market for *Summer Holidays*.
- (a) Explain what is meant by a *franchise*. [2 marks]
- (b) Assess the advantages **and** disadvantages of the decision to take up a franchise rather than to operate as a sole trader. [6 marks]
- (c) Using appropriate examples distinguish between objectives, strategies and tactics and describe how these interrelate. [6 marks]
- (d) Evaluate the role of market research in making business decisions. [6 marks]
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