



IB DIPLOMA PROGRAMME
PROGRAMME DU DIPLÔME DU BI
PROGRAMA DEL DIPLOMA DEL BI

N06/3/BUSMT/SP2/ENG/TZ0/XX



88065014

**BUSINESS AND MANAGEMENT
STANDARD LEVEL
PAPER 2**

Friday 10 November 2006 (morning)

1 hour 30 minutes

INSTRUCTIONS TO CANDIDATES

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

1. 3X

3X was founded in 1880 in the United States. Its mission is “to publish the most vital business and financial news and information and to ensure that the 3X name is associated with accuracy, integrity and trust”.

3X publishes over 38 newspapers and produces news and information for television through a global business television alliance. In addition, 3X is the leading global provider of instant electronic business news and information for financial institutions. 3X has achieved this position through a combination of organic growth and mergers and acquisitions. It recently entered the Russian market by setting up a joint venture with an established and successful local publisher “Kalowski”.

3X sets a code of ethical conduct for its employees to follow since it recognizes that it is vital that customers believe that the news and information it provides is the truth. 3X’s ethical code provides guidelines on share trading, accepting gifts, political activities and employee rights.

In recent years 3X has set the trend away from printed newspapers towards digital news and information. 3X recognises that digital news and information is more timely, easier to update and amend, and is cheaper to distribute. However, many customers are more familiar with “paper” news and distrust digital media and prefer the mobility offered by paper. In addition, the unions have resisted moves towards digital news and information.

- (a) Explain how the mission statement can help decision making at 3X. *[4 marks]*
- (b) Describe **two** potential benefits to 3X of setting ethical objectives. *[4 marks]*
- (c) Discuss the possible reasons why 3X chose to enter the Russian market via a joint venture rather than setting up there independently or acquiring a local publisher. *[6 marks]*
- (d) Analyse the role of primary **and** secondary sources of data in helping 3X develop its presence in the digital news and information market. *[6 marks]*

2. Essemo

Essemo was founded in 1920 and is now a world leader in the production and distribution of a range of ice cream products. The *Essemo* product range (see Table below) includes products targeted at children, restaurants, supermarkets and a “super premium” range for adults. The *Essemo* management believe there are very few further growth opportunities in niche markets.

Facing intense competition from strong rivals in Europe and North America, *Essemo* has decided to base its growth strategy in new markets. In particular, *Essemo* intends to expand in India and China where the large population, growing economies, and potential demand offer huge growth opportunities.

Essemo is also concerned that the move towards low calorie diets will soon harm ice cream sales in mature markets.

Product	Description
Dotty	Bright and colourful. Low price aimed at young children. Uses low cost ingredients. Dotty has taken up a great deal of management time, but sales have never achieved their potential.
Nutty	Range of flavours with chocolate and peanut topping. Medium price. For teenagers and young adults. Viewed as a cash cow.
Get2gether	Two litre tubs aimed at family buyers for freezer storage at an affordable price. Uses medium range ingredients.
Royale	Super premium. Aimed at young professionals. High quality, premium price. Viewed as a cash cow.
Ben & Berry	Premium quality family ice cream. High price with fun theme. A proportion of sales revenue goes to children’s charities. Viewed as a rising star.

- (a) Explain the significance and role of “cash cows” for the future of *Essemo*. [4 marks]
- (b) Identify **two** potential benefits and **two** potential costs to the Indian economy if *Essemo* enters the Indian market. [4 marks]
- (c) With reference to the Ansoff Matrix and the product life cycle, discuss *Essemo*’s chosen growth strategy. [6 marks]
- (d) Evaluate the choice of different pricing strategies for *Essemo*’s product range. [6 marks]

3. Overseas School

Overseas School was established in Asia in 1973 and by 2003 had established itself as a prestigious, fee paying international school with a reputation for sending its high school graduates to the best universities.

Teachers were employed on two year contracts, which were renewed if performance was deemed to be satisfactory by the chairman of the board of governors. In 2004 the chairman, Tom Jones, decided that the school needed to introduce radical changes to head off the challenge from new international schools. Tom proposed the following changes:

- the existing head teacher, who had been employed by the school for 15 years would be replaced as soon as possible
- the appointment of a director of administration who would oversee the non-academic operations of the school (*e.g.* catering, transport, cleaning). The director would have a business (rather than education) background and would receive performance related pay
- existing teachers would take a 30 % pay reduction
- a major building programme would be initiated to distinguish *Overseas School* from its rivals
- members of the union management committee would not have their employment contracts renewed
- a rigorous programme of teacher appraisal would be introduced; under-performing teachers would not have their contracts renewed. Extra money would be given to teachers with a “good” appraisal
- heads of subject departments would be required to report regularly to the director of academic studies. Examination results would be monitored closely.

Tom’s proposals were strongly opposed by the teachers and management, but supported by the parents and students. However, since Tom had complete control over the board of governors the opposition was largely ignored.

- (a) Describe Tom Jones’ leadership style. [2 marks]
- (b) Using Herzberg’s theory of motivation examine the likely effects on teacher motivation of Tom Jones’ proposals. [6 marks]
- (c) Identify the interests of **two** stakeholder groups at *Overseas School* and explain how potential conflict between them could be resolved. [6 marks]
- (d) Evaluate the proposal to reward the director of administration on a performance related pay basis. [6 marks]

4. Aries

The chief executive officer (CEO) of *Aries*, a shoe manufacturer, has proposed that the firm enters the women's fashion clothing market. *Aries* has a reputation for innovative designs, which should provide an edge in a very competitive market. The production manager, who supports the CEO's proposal, suggests that *Aries* should investigate a strategic alliance with Scharp, a manufacturer producing exclusive clothes for the menswear market. Scharp, which has an excellent reputation for the quality of its clothing, has agreed in principle to manufacture clothes for *Aries* using spare production capacity. *Aries* would be responsible for all marketing and distribution of its new clothing range and the *Aries* and Scharp brands would remain distinct and separate. However, the two firms would undertake joint market research and would consider developing new products in the future where the brands complement each other.

The finance director of *Aries*, however, is concerned about the financial implications of the expansion. He believes there is inadequate working capital to fund this venture as recent expensive development of new shoe designs has resulted in poor liquidity. Nevertheless, following a request from the CEO, he has produced the following estimates of cash flows for the first six months of manufacture, to be presented to the next meeting of the board of directors. He recommends that \$300 000 be deposited in the bank in January as an opening bank balance to fund the new venture. This sum will need to be taken as a loan on which interest will be payable.

Start up costs	\$150 000 one-off payment payable in January
Monthly overheads	\$15 000 per month starting in January
Monthly interest	\$3000 per month starting in January
Stock purchases	\$18 000 in January rising by 5 % in each of the following months
Predicted sales	First sales of 100 garments in March, with sales growing by 5 % per month. Each garment will sell for \$400.

- (a) Explain the need for working capital. [3 marks]
- (b) (i) Identify **three** reasons for drawing up a cash flow forecast. [3 marks]
- (ii) Prepare a cash flow forecast for the proposed new clothing venture covering the first six months of operations (January to June), using the financial data provided by the financial director. [8 marks]
- (c) Evaluate the proposal that *Aries* forms a strategic alliance with Scharp. [6 marks]

5. Seifert Sawmill

The *Seifert Sawmill* has operated in Sweden for 80 years. Daniel Seifert, the managing director, provided the following data on a proposal to set up a Sawmill in Latin America.

Table 1

Fixed costs	\$800 000 per annum
Variable costs	\$1000 per batch
Selling price	\$4000 per batch
Forecast sales	500 batches per annum

Table 2

The fixed costs per annum: \$		The variable costs: \$	
Directors fees	200 000	Direct labour	300 per batch
Rent	250 000	Machine hire	100 per batch
Annual logging licence	100 000	Electricity	100 per batch
Depreciation	70 000	Vehicle running costs	100 per batch
Interest	150 000	Materials	400 per batch
Other expenses	30 000		

Seifert Sawmills has hired a management consultancy firm, Business Dynamics, to assess the business environment in Latin America. The following is a summary of their findings:

- the local and regional construction industry is showing strong signs of recovery from recession
- the recent national elections resulted in the PBP political party being re-elected with policies favouring the business community
- the local currency has been pegged to the US dollar in an attempt to improve business confidence and contain inflation
- the trade union movement in Latin America is getting stronger. There is a widespread belief among employees that trade unions offer the only real hope of improving living standards
- global and local environmental groups are gaining in popularity and political influence
- there is a growing use of synthetic materials in the construction industry rather than timber.

- (a) Use the data in Table 1 to prepare a break-even chart for *Seifert Sawmill*. [6 marks]
- (b) Identify on your chart the margin of safety and profit if 500 batches are sold. [2 marks]
- (c) Assuming 500 batches are sold, construct a forecast profit and loss account using the data provided in Table 2. [6 marks]
- (d) Use a PEST/STEP framework to evaluate **two** external factors which might influence *Seifert Sawmill's* decision to set up a sawmill in Latin America. [6 marks]