



**BUSINESS AND ORGANISATION
HIGHER LEVEL
PAPER 2**

Monday 6 November 2000 (morning)

2 hours 15 minutes

INSTRUCTIONS TO CANDIDATES

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

1. Sailmoore, a boat company, has been in operation for eight years, existing as a partnership owned by Marco Chichester and Raoul Grant. After a revival in interest in boat holidays they have decided to increase the number of boats that they have in their fleet.

They have looked at three different options to achieve their objectives:

Option 1 Buy 10 new boats at a cost of \$62 000 each. The return on each boat would be \$8400 per year for 10 years and the total residual value of the boats after 10 years will be \$100 000.

Option 2 Lease 10 boats for 10 years at \$7000 per year per boat. The lease agreement would include maintenance and improvement of each boat after 5 years. The return on each boat would be \$8400 per year for 10 years. At the end of the lease Sailmoore would return the boats to the leasing company.

Option 3 Shared ownership scheme for 10 boats, whereby 100 new share owners would pay \$2500 dollars each to receive 5 weeks holiday; all maintenance and repairs to be done by Sailmoore. This would cost \$140000. The total residual value of the boats after 10 years will be \$100 000.

- (a) Describe **four** possible objectives of Sailmoore. *[4 marks]*
- (b) Explain what is meant by depreciation and why Sailmoore needs to consider it when choosing an appropriate option. *[4 marks]*
- (c) Use Average Rate of Return to consider each of the options and evaluate each option. Produce a report making recommendations to Marco Chichester and Raoul Grant as to which you consider to be the best option for Sailmoore. *[12 marks]*

2. Large Land is a holiday resort, based in Africa. It has recently experienced a number of problems: poor quality service, too few attractions, too much queuing, and the prices are too high. The company has operating losses, and is planning to restructure.

After guests leave Large Land holiday resort they are sent customer satisfaction surveys issued in their own language. 50,000 are issued annually, sampling the views of 5.7 million visitors. The survey assesses satisfaction and intent to return. This feedback helps monitor quality standards. As a result of this marketing research information Large Land decides to provide new attractions, more restaurants, lower prices and reduce queues.

Staff want the organisation to listen and to make its mission and structure clear. They feel that their skills are not being used and there is little teamwork. This means that they do not provide good customer service.

The resort is managed as a large centralised organisation including hotels, restaurants, and attractions. Each of these areas has its own functions: human resources, finance, marketing and operations.

The company is planning to reorganise into 250 small business units, each involving 40 staff. This will involve more staff in the running of the business, and bring improvements in quality, service and management. A training programme will ensure that all employees understand the company changes.

The grade based pay structure is to be replaced by an appraisal and rewards pay system based on performance in the company.

- (a) Explain, by reference to Large Land, what is meant by the following terms:
- (i) customer service
 - (ii) appraisal
 - (iii) quality service *[6 marks]*
- (b) Analyse the benefits for Large Land of operating as small decentralised business units rather than as a centralised organisation. *[6 marks]*
- (c) Use appropriate motivation theory to assess how the rewards system might help to motivate staff. *[6 marks]*
- (d) Outline **two** other ways in which Large Land could carry out market research in order to improve their customer service. *[2 marks]*

3. Yonussi are a medium sized business that produce kettles. Excess capacity exists and they are looking for new ways to increase production. They are convinced that they must enter a new market with a new product. They are considering espresso coffee makers or air conditioning units.

National sales by volume for the kettles, espresso coffee makers and air conditioning units are shown in *Figure I*:

Figure I

	000s	1995	1996	1997	1998	1999
Kettles		618	625	652	677	707
Air conditioning units		108	128	145	176	214
Espresso coffee makers		12	48	68	120	100

There is a seasonal pattern to sales of espresso coffee makers and air conditioning units.

The company has decided that there is greater potential in the espresso coffee maker market. They intend to produce four models; their major market segments are homes and small offices. It is essential that their pricing strategy enables them to compete successfully with other products.

In general, dealers are hostile to the idea of a new entrant in the market and Yonussi would have to demonstrate definite advantages in their product to enable dealers to stock it. The alternative would be an expensive promotional campaign to produce a positive consumer response so that they demand the product from dealers. Research shows that there is potential for direct marketing and also working with coffee manufacturers to provide special promotions.

- (a) Explain **three** ways in which Yonussi could alter the seasonal pattern of their sales. [3 marks]
- (b) What are the **three** main benefits to Yonussi of diversifying into new products rather than increasing kettle production? [3 marks]
- (c) Develop a product growth strategy for Yonussi if they decide to enter the espresso coffee maker market. [8 marks]
- (d) In 1995 Yonussi sold 213,000 kettles and in 1999 they sold 360,000 kettles. Calculate their share of the kettle market in 1995 and in 1999. Comment on the change and give **two** reasons why the change may have occurred. [6 marks]

4. Krispie Pops make breakfast cereals.

Krispie Pops - information:

- Krispie Pops' total capacity is 2,000,000 cartons of cereal every year
- the cereal sells at \$1.20 per carton
- estimated fixed costs in 2001 will be \$600,000
- Krispie Pops have recently negotiated a contract with a supplier who will provide raw materials for the breakfast cereals at a cost of \$0.30 per carton
- labour costs are \$100 per hour and 1000 cartons are made each hour
- packaging costs \$10 per 100 cartons and distribution per carton is \$0.10

(a) Calculate:

- (i) contribution per carton of cereal *[4 marks]*
- (ii) break-even quantity *[2 marks]*
- (iii) profit if the factory operates at 70% capacity *[4 marks]*
- (iv) margin of safety if the factory operates at 70% capacity. *[2 marks]*

(b) The directors of the company are considering increasing the selling price of Krispie Pop cartons to \$1.40. Explain the effect of this on the break-even point and sales. *[4 marks]*

(c) Suggest **two** other ways in which the company could increase sales revenue. *[4 marks]*

5. The balance sheets and profit and loss accounts for Sugar Candy, a sole trader (proprietor) candy (sweet) shop, for 1998 and 1999 are set out below.

Profit and Loss Account	1999	1998
	\$	\$
Sales Revenue	68 390	80 250
Cost of Sales	?	60 187.50
Gross Profit	17 097.50	?
Heat and Light	2740	2075
Wages	3512.20	3507
Rates	1492	1144
Depreciation	1324	1324
Loan interest	5000	5000
Net Profit	?	7012.50
Balance Sheet	1999	1998
	\$	\$
Fixed Assets	93 170	93 170
<i>Less</i> Depreciation	2648	1846
	90 522	91 846
Current Assets		
Cash	134.20	260
Debtors	2060	4680
Stock	4520	7630
	?	12 570
Current Liabilities		
Creditors	8030.40	10 399.50
<i>Working Capital</i>	<i>(1316.20)</i>	<i>2170.50</i>
Total Net Assets	89 205.80	94 016.50
Financed by:		
Capital	35 000	35 000
Retained Profit	19 205.80	19 016.50
Loan	35 000	40 000
	89 205.80	94 016.50

(This question continues on the following page)

(Question 5 continued)

- (a) Outline **one** advantage and **one** disadvantage of being a sole trader (proprietor). *[2 marks]*
- (b) Calculate the missing figures:
- (i) 1999 Cost of Sales
 - (ii) 1999 Net Profit
 - (iii) 1998 Gross Profit
 - (iv) 1999 Current Assets *[4 marks]*
- (c) Using at least **four** ratios compare and analyse the profitability, efficiency and liquidity of Sugar Candy in 1998 and 1999. *[14 marks]*

6. Diaz and Morelli PLC have decided to introduce a corporate community investment programme, whereby each of its 55,000 employees throughout the world will spend one day on full pay working for local community projects. It is felt that making a positive contribution to the community will boost morale and motivation as well as offering scope for staff development. Staff have been able to develop skills such as communication, collaboration, leadership, teamwork and creative thinking through their involvement. Diaz and Morelli PLC are also encouraging their staff to take part in giving tax-deductible donations, direct from their payroll to their favourite charities. This has met with some opposition from the staff and they need to be convinced of the benefits.
- (a) Explain **three** reasons why Diaz and Morelli might want to become involved in community projects. *[5 marks]*
- (b) (i) Assess the importance of consulting the employees as to which charities the company should become involved with. *[6 marks]*
- (ii) Evaluate how the skills learned by taking part in the community projects can help to improve the performance of the organisation. *[4 marks]*
- (c) Prepare a memo to the staff from the finance department explaining the benefits of donating to charity. *[5 marks]*

7. Ricco and Consuela Marcos want to operate a restaurant business. They have decided not to set up as an independent business but to operate as a franchise ‘Las Tapas’, part of a well-known chain. This will involve an initial investment of \$250,000 at the start of the year. They consider the year 2000 to be a good time to set up their business because the government have recently offered tax benefits to small businesses. Market research carried out by the franchiser suggests that there is a need for a new restaurant in the area. However another chain ‘Pasta, Pasta’, is considering opening its own restaurant.

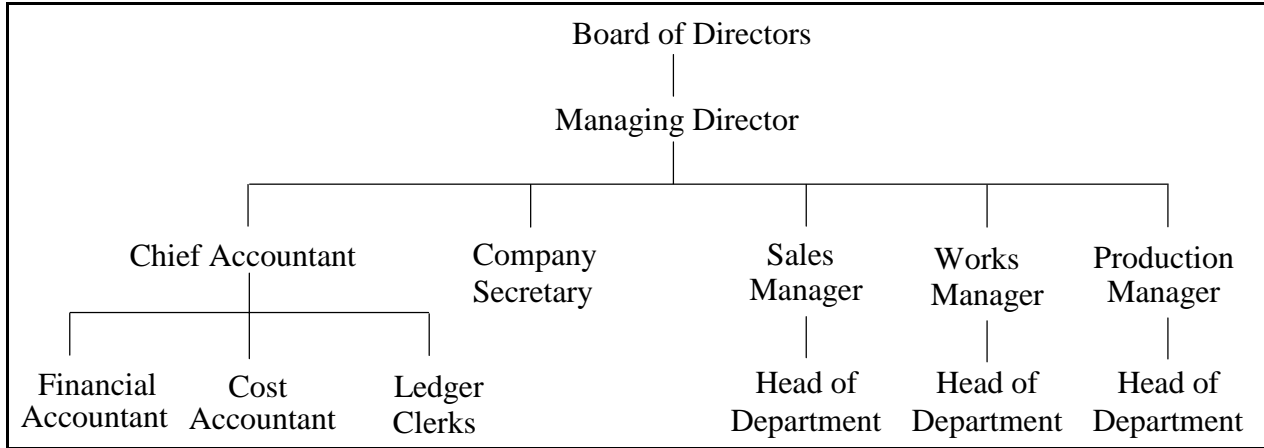
Their estimated sales revenue and costs over the first twelve months are estimated at:

Sales	\$
J	21 000
F	19 000
M	22 000
A	20 000
M	15 000
J	15 000
J	12 000
A	13 000
S	15 000
O	17 000
N	22 000
D	25 000
Wages	\$2 000 per month
Food purchases	\$10 000 per month paid to the franchiser
Beverage costs	\$5 000 per month paid to the franchiser
Own drawings	15% of sales per month
Electricity and gas	\$4 000 per annum paid in 4 equal instalments in March, June, September and December
Telephone	\$500 paid annually in July
Advertising	3% of total sales paid to the franchiser annually in May
Administration	1% of sales per month
Royalties	5% of annual sales paid to the franchiser in December 2000
Licence to Franchiser	\$250 000 paid in January 2000

- (a) Explain **three** advantages that Ricco and Consuela would gain from operating as a franchise rather than setting up an independent business. *[3 marks]*
- (b) Construct a cashflow forecast for Las Tapas. *[8 marks]*
- (c) Comment on the cashflow forecast and suggest **two** ways of increasing cashflow. *[4 marks]*
- (d) You work for the franchiser. Identify the Strengths, Weaknesses, Opportunities and Threats (SWOT) for Ricco and Consuela of operating Las Tapas. *[5 marks]*

8. The diagram shows the organisational structure of Kowi Enterprises, an engineering company whose mission statement is:

“To maintain customer service, the way it always has been.”



After three years of making a loss, they have accepted a takeover bid from a large multinational business, Sunami. The main principles of Sunami are employee participation in decision-making and continuous improvement in all areas of the business. Some of the managers of Kowi are concerned because they believe that new managers will be brought in to run the company and that they will be forced to take retirement packages.

Sunami is famous for cutting costs, reducing unnecessary management levels and increasing efficiency.

The Sunami board of directors propose a new organisation structure for the business that cuts out the layer between the managing director and the heads of department. This will increase participation in decision-making and enable the managing director to have more direct contact with employees.

- (a) Use the Kowi Enterprises’ mission statement to explain why they may have had three loss making years. [4 marks]
- (b) Analyse the present organisational chart in terms of line management responsibility present and span of control. [5 marks]
- (c) Evaluate the changes for the workforce of removing a layer from the organisational structure. [4 marks]
- (d) Use appropriate leadership theory to analyse the decision to employ entrepreneurial managers rather than old fashioned bureaucratic managers. [7 marks]