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—Visionary IB Education—  
Success in the IB Diploma

**BUSINESS MANAGEMENT**

**STANDARD LEVEL**

**PAPER 2**

Practice examination 2016

1 hour 45 minutes

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INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- Section A: answer **one** question.
- Section B: answer **one** question.
- Section C: answer **one** question
- A calculator is required for this examination paper.
- A clean copy of the IB Business Management formulae sheet is required for this examination paper.
- The maximum mark for this examination paper is **[50 marks]**.

## SECTION A

Answer **one** question from this section.

### 1. FLASH FITNESS



**Has she burned more calories than her friends today?**

challenges. She owns an online business and all sales are processed electronically under the business name Flash Fitness.

Weifang Zhuang is a sole trader who sells smart activity trackers directly to New Zealand consumers. She sources what she believes is the best value activity bands directly from Chinese factories with surplus product and purchases one product, in bulk. Her activity bands monitor:

- Heart rate
- Calories band
- Steps walked
- Distances and speeds run or cycled

These activity trackers work within the Android ecosystem of apps and allow social sharing of fitness information and group

#### Financial information for 2016 (all figures in NZ dollars)

<b>Fixed costs per year:</b>	
Rent	\$20 000
Marketing	\$4 000
Administration	\$5 000
Interest payments	\$1 000
<b>Variable costs per activity tracker:</b>	
Activity tracker	\$135
Transportation	\$45
Direct labour	\$20
<b>Price per cell phone</b>	<b>\$250</b>

*(This question continues on the following page)*

(Question 1 continued)

Weifang forecasts selling 700 activity trackers in 2016.

- a. Define the term variable costs. **[2 marks]**
- b. i. Construct a fully labelled break-even chart for Flash Fitness for 2016. Calculate and indicate the break-even point and the margin of safety and calculate the forecasted profit from the sale of 700 activity trackers (*show all your working*). **[6 marks]**
- ii. Calculate the number of activity trackers Flash Fitness must sell in order to double the forecasted profit (*show all your working*). **[2 marks]**

## 2. VTE



Online education – supporting students in the classroom

VTE is a well-established small private limited company specialising in online education, based in the US. The owner and founder, Kate Kerr, currently owns 100 per cent of the shares and enjoys complete freedom in the running of the company. The business employs three full-time staff who have been with the business for over six years. VTE has enjoyed many years of expansion in the provision of online education. Kate owns the copyright for her patented software, which provides her with a unique selling point (USP). However, the copyright will expire in the near future. Moreover, several rival companies have recently established a presence in the online education market.

Kate has to raise finance to develop new educational software to maintain or improve her market position. Her bank manager has refused to lend funds for the research and development (R&D) of the new software, saying that “software has a short product life cycle, and your balance sheet has deteriorated”.

Kate's accountant has just presented the following financial information for VTE as of 31 January 2016, which raised some working capital and liquidity issues.

### Extract from the balance sheet for VTE for the year ended 31 January 2016

	(\$)
Capital employed	X
Cash	2 000
Creditors	Y
Debtors	28 000
Depreciation	1 500
Fixed assets	30 000
Loan capital	0
Net assets	Z
Retained profit	8 500
Share capital	2 000
Short-term borrowing	0
Stock	0
Total (current assets)	30 000
Total (current liabilities)	48 000

*(This question continues on the following page)*

(Question 2 continued)

- a. Explain the importance of VTE having a *unique selling point*. **[3 marks]**
- b. Calculate the missing figures X, Y, Z and with those figures and from the financial information provided, construct a complete balance sheet for VTE for 2016. **[7 marks]**

## SECTION B

Answer **two** questions from this section.

### 3. LEGO GROUP CO



Great fun until you step on one barefoot

Lego Group is a Danish company that sells its products in many countries around the world. It manufactures toys, with its best known product being the plastic building bricks known as “Lego”.

The company is a major employer in many towns in Denmark. It takes pride in offering job security, generous benefits and teamworking for its motivated and productive staff.

Lego Group is now facing the following problems:

- Increased competition in the toy market because other manufacturers can produce cheaper branded products
- Increased competition from other sectors such as online gaming
- Increased number of defective products
- Stricter health and safety regulations in the European Union (EU)
- Pressures from environmental groups in Denmark due to pollution from production plants
- Lack of innovation and failure to launch new products in the past few years.

In recent years Lego Group has lost some of its market share. Lego Group's largest rival is MegaMonkey Toys, which produces similar products. MegaMonkey Toys has recently opened a new manufacturing plant that has doubled its production. Primary market research shows that Lego Group has far better brand recognition but consumers prefer MegaMonkey Toys' lower prices. The directors at Lego Group believe that developing brand loyalty will be essential to maintain its competitiveness.

Quality assurance is an important aspect to Lego Group, which is why the production manager wants to implement a Kaizen (continuous improvement) approach to manufacturing in Denmark. However, the financial manager is proposing to outsource the production facilities to Vietnam so as to reduce costs. The research and development (R&D) department would remain in Denmark and would increase its activities.

*(This question continues on the following page)*

- a. State one advantage and one disadvantage of primary market research for Lego Group. **[2 marks]**
- b. Define the term *research and development*. **[2 marks]**
- c. Apply Herzberg's research on 'hygiene and motivating factors' to employee motivation at Lego Group. **[6 marks]**
- d. Discuss the financial manager's proposal "to outsource the production facilities to Vietnam". **[10 marks]**

## 4. VISCIOUS VIOLET



It's got to be healthy with all of those antioxidants?

For years, Vicious Violet has produced chocolate bars targeting the youth market segment and has been the market leader. The market became saturated due to the entry of many competitors. Vicious Violet's founder, Abbey Turner, was concerned about falling market share, especially because many competitor products were perceived to be similar to Vicious Violet's. As a result Abbey decided to hire an agency to prepare a market audit and to conduct market research. The results confirmed Abbey's concerns. The audit identified a new gap in the market: a chocolate bar for health conscious consumers.

Abbey thought that it was a good opportunity for Vicious Violet to exploit. She estimated that a chocolate bar for health conscious consumers could be produced in small batches using imported cocoa beans from Venezuela. Abbey knew that these beans had significant health benefits and that the new bar could change customer perceptions of Vicious Violet. It could also be priced considerably above other chocolate bars. Vicious Violet began the product development of the new healthy chocolate bar, "Vicioso".

The introduction of Vicioso gave Abbey the opportunity to introduce total quality management (TQM) across the company. Previously chocolate bars were produced using flow production and only three workers were employed to check quality. With the adoption of the system of TQM, Abbey expected that the quality of all Vicious Violet products could improve with zero defects and reduced waste. However issues remain. Vicious Violet workers have traditionally resisted changes in the production process and Abbey is worried about the impact on worker motivation. Abbey is considering change management practices.

Early sales of Vicioso have been impressive. Abbey believes that the strategy of introducing a new healthy chocolate bar would differentiate Vicious Violet from its competitors and change customer perceptions away from a youth orientated chocolate company towards a more adult one. However, the move might be unpopular with Vicious Violet's other stakeholders and would require further extensive promotion to change perceptions of its brands and company. Some competitors are also experimenting with health conscious products similar to Vicioso.

*(This question continues on the following page)*

- a. Define the term *market segment*. **[2 marks]**
- b. Explain the concept of *total quality management*. **[3 marks]**
- c. Comment on possible areas of mutual benefit **and** conflict between stakeholders' interests at Vicious Violet. **[5 marks]**
- d. Discuss whether the launch of Veneziano could change customer perceptions of Vicious Violet. **[10 marks]**

## 5. XONING



**A journey is best measured in friends, rather than miles.**

Xoning is a new start up business partnership of five young IT professionals with financial backing from a business angel.

It recently developed a mobile app and integrated online travel software product called "Xroad" that prepares a personalised itinerary (travel plan) for those travelling by car, based on their interests and trip preferences, such as romantic trips, business journeys or family holidays. The itinerary includes maps, driving directions, tourist attractions and hotels. Discounts are offered if booked

using Xroad. Xroad software was developed because market research indicated that:

- The majority of leisure travel is done on the road
- The majority of road travellers book mid-range or expensive hotels
- Most currently available online tourism search products are mainly focused on air travel, not travel in cars
- After years of increasing popularity, online booking for air travel is actually becoming less popular because people are tired of spending two or three hours trying to find the airline, hotel, or vacation package that meets their needs.

Xoning will promote Xroad using promotional strategies incorporating new technology (viral marketing, social networking, and social media marketing) in order to capture new market segments and to fill a niche in the online travel business market, which is experiencing growing revenue and fewer customers.

- Define the term *business angel*. **[2 marks]**
- Explain one advantage and one disadvantage for Xoning of being a partnership. **[4 marks]**
- Explain how Xoning can segment its market for Xroad. **[4 marks]**
- To what extent can Xoning use promotional strategies incorporating new technology (viral marketing, social networking, social media marketing) to promote Xroad? **[10 marks]**

## SECTION C

Answer **one** question from this section. The organisations featured in Sections A and B and in the Paper 1 case study may not be used as a basis to your answer.

6. With reference to one or two organisations that you have studied, discuss the role of globalisation in the strategies associated with the growth and evolution of organisations. **[20 marks]**
7. With reference to one or two organisations that you have studied, discuss how cultural differences may influence marketing practices and strategies in an organisation. **[20 marks]**
8. With reference to one or two organisations that you have studied, discuss internal and external changes as factors that may influence human resource strategies. **[20 marks]**