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—Visionary IB Education—
Success in the IB Diploma

BUSINESS MANAGEMENT

STANDARD LEVEL

PAPER 1

Practice examination 2018 – **Afghan Sun**

1 hour 15 minutes

INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- A clean copy of the **IB Business Management case study – Afghan Sun** is required for this examination paper.
- Read the case study carefully.
- A clean copy of the **IB Business Management formulae sheet** is required for this examination paper.
- Section A: answer two questions.
- Section B: answer question 4.
- A calculator is required for this examination paper.
- The maximum mark for this examination paper is **[40 marks]**.

SECTION A

Answer **two** questions from this section.

QUESTION ONE

- a. With reference to Afghan Sun, describe two advantages of being product orientated (line 54). **[4 marks]**
- b. With reference to Afghan Sun, distinguish between strategic objectives (line 4) and tactical objectives (line 30). **[6 marks]**

QUESTION TWO

- a. With reference to Afghan Sun, outline **two** key functions of management (line 29). **[4 marks]**
- b. With reference to Afghan Sun, explain the nature of microfinance providers (line 9). **[6 marks]**

QUESTION THREE

- a. With reference to Afghan Sun, outline **two** key features of operating as a private limited company (line 19). **[4 marks]**
- b. Analyse how Suchenlin's leadership style would impact on the objectives of Afghan Sun. **[6 marks]**

SECTION B

Answer the **compulsory** question from this section.

QUESTION FOUR

After considered research regarding the manufacturing of solar power plants, Suchenlin and her advisory team have decided on two possible production locations, Serbia or Afghanistan itself.

On a per-unit basis, producing in Afghanistan would be less costly than Serbia, but other qualitative factors by-and-large favour manufacturing in Serbia.

The revised estimated cost of producing 2000 solar power units annually in Afghanistan and Serbia are outlined below:

Table 1: Associated manufacturing expenses

	Costs (\$)	
	Afghanistan	Serbia
Direct material (per unit)	\$90	\$100
Direct labour (per unit)	\$22	\$55
Additional variable costs (per unit)	\$16	\$21
Transport and agent fees in Afghanistan (per unit)	\$50	\$50
Annual overheads	\$40,000	\$80,000

Further, Suchenlin has explored the option of restructuring production so that the complete solar power system is manufactured by a Chinese company and shipped to an Afghan Sun warehouse for distribution. This option would result in significant cost savings as the Chinese manufacturing company benefits from economies of scale.

Three production options are to be considered for Afghan Sun's solar power systems:

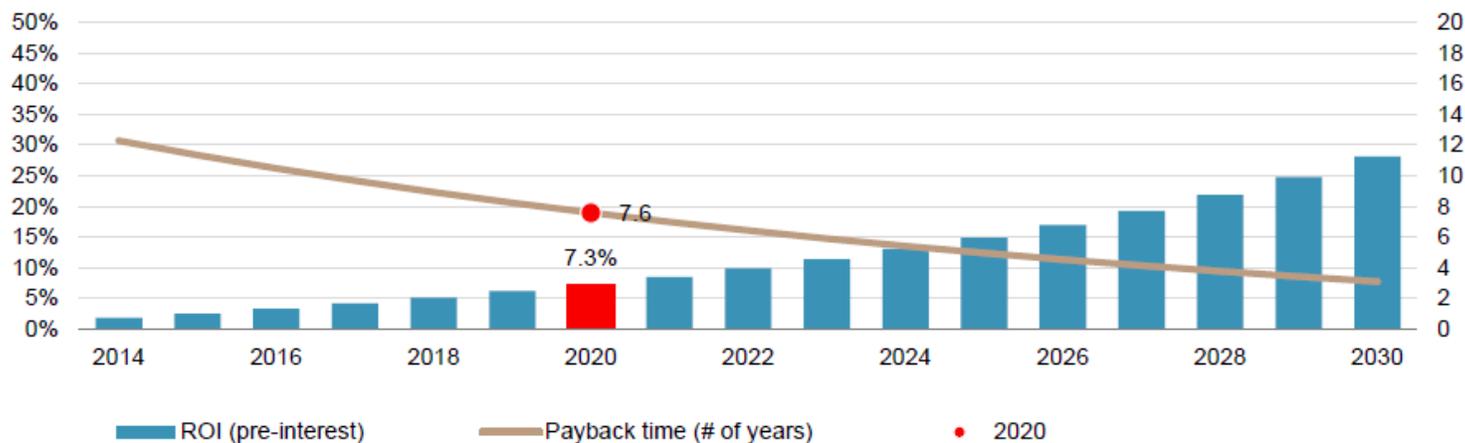
- Option 1: Manufacturing in Germany
- Option 2: Manufacturing in Afghanistan
- Option 3: Outsourced manufacturing to China

- a. Outline why capital expenditure (Table 2 in the case study) would not feature in an Afghan Sun profit and loss account. **[2 marks]**
- b. Financial analysis.
- i. Using information in Table 1 above, calculate the break-even target price for Afghanistan **and** Serbian manufacturing. **[2 marks]**
- ii. Afghan Sun decides to charge a price of \$200 per unit and believes it can sell 2000 solar power systems annually.
Use information in Table 1 above, to calculate the profit or loss for Afghanistan **and** Serbian manufacturing. **[2 marks]**
- c. With reference to Afghan Sun, analyse the appropriateness of cellular manufacturing (line 23). **[4 marks]**
- d. Using the additional information in the case study, table 1 above, and items 1- 3 below evaluate what you believe to be the **two** best options for Afghan Sun to achieve its strategic objectives. **[10 marks]**

Additional information

ITEM 1: THE PAYBACK TIME FOR HOUSEHOLD SOLAR SYSTEMS KEEPS DECREASING

Figure 4: Solar + battery + EV already pay off in certain countries, but economics should further improve dramatically



Source: KPMG report into the economies of household solar power systems (Jan 2018)

* Falling prices of solar panels arise from increasing economies of scale as world output continues to grow and solar panel efficiency and production technology improves.

ITEM 2: AFGHAN SUN – SUMMARY SWOT ANALYSIS

Strengths (internal)

- Wealthy owner actively involved
- Social benefit objectives
- Motivated employees
- Strategic partner in Arif Koomar
- Microfinance to support product purchase
- Financing of the company
- Projected profitability
- Product ideally suited to needs of target market
- Very low price of product
- Strong CSR

Weaknesses (internal)

- Non-independent CEO
- Marketing plan
- Cash flow
- Inexperienced management and employees
- Low employee remuneration
- Distribution
- Inability to achieve economies of scale
- Single product
- No research and development team
- Large capital expenditure
- Limited market research

Opportunities (external)

- Expand microfinance business
- Marketing to other consumer segments
- Expand product range
- Technological improvements
- Few remote and rural villages have electricity
- Partnership with government organisations
- Partnership with NGOs

Threats (external)

- Changes in technology
- Security of product in distribution
- Security of supply chain
- Exchange rate volatility
- Endemic corruption
- Difficulty in doing business in Afghanistan
- Change in legislation (e.g., increased tariffs)
- Current and future competitors in the market

ITEM 3: BREAKING NEWS

News item appearing in major newspapers and global media.

REUTERS
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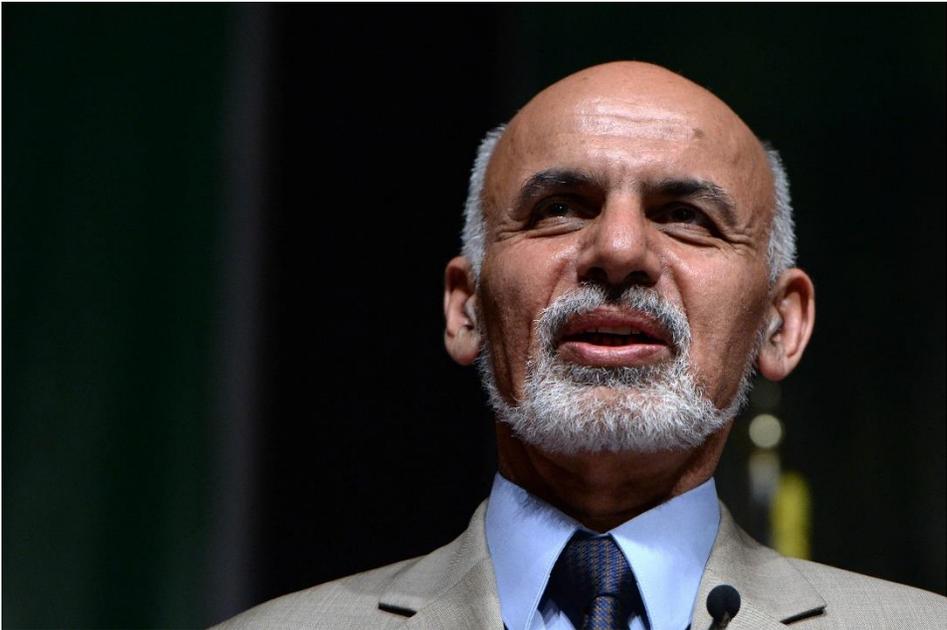
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Business Tues Apr 15, 2016 6:56am EST

Afghanistan parliament elections likely delayed until October

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The presidential election in 2014 that was marred by allegations of massive voter fraud on both sides
REUTERS/MILENA BAENSCH

Afghanistan's long-delayed parliamentary and local council elections scheduled for July this year may have to be pushed back for another three months, an election commissioner said on Sunday citing organizational challenges.

The parliamentary polls, originally scheduled for July 2015, are seen as dry run for a presidential election in mid-2019 and a test of the progress made by Afghanistan's Western-backed government towards establishing durable democratic institutions. "We are ready to hold the elections with two or three months' delay, but the security agencies must tell us whether they are ready," Wasima Badghisi, deputy head of operations at the Independent Election Commission told Reuters. The problems in organizing the parliamentary vote underline the fragility of the political institutions created in Afghanistan since a U.S.-led campaign brought down the Taliban in 2001.

EDITOR'S CHOICE



A dramatic week ahead



Facebook prohibits private gun sales on its site

PHOTOS OF THE WEEK



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TRENDING ON REUTERS

IB Students show very elevated levels of stress compared to other students 1

Sarah Palin and Donald Trump announce birth of new daughter, Freedom Hilton 2

Queen Margaret College rocked by rampant student lethargy during mocks 3