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—Visionary IB Education—
Success in the IB Diploma

BUSINESS MANAGEMENT

HIGHER LEVEL

PAPER 1

Practice examination 2018 – **As Fair As**

2 hours 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 – As Fair As** 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.
- Section C: answer question 5.
- A calculator is required for this examination paper.
- The maximum mark for this examination paper is **[60 marks]**.

SECTION A

Answer **two** questions from this section.

QUESTION ONE

- a. With reference to As Fair As, describe the importance of **two** external stakeholders (line 69). **[4 marks]**
- b. Analyse the role of a cost-plus pricing strategy (line 6) at As Fair As. **[6 marks]**

QUESTION TWO

- a. Outline **one** advantage and **one** disadvantage of the use of wholesalers in the supply chain at As Fair As (line 47). **[4 marks]**
- b. With reference to As Fair As, explain the importance of branding. **[6 marks]**

QUESTION THREE

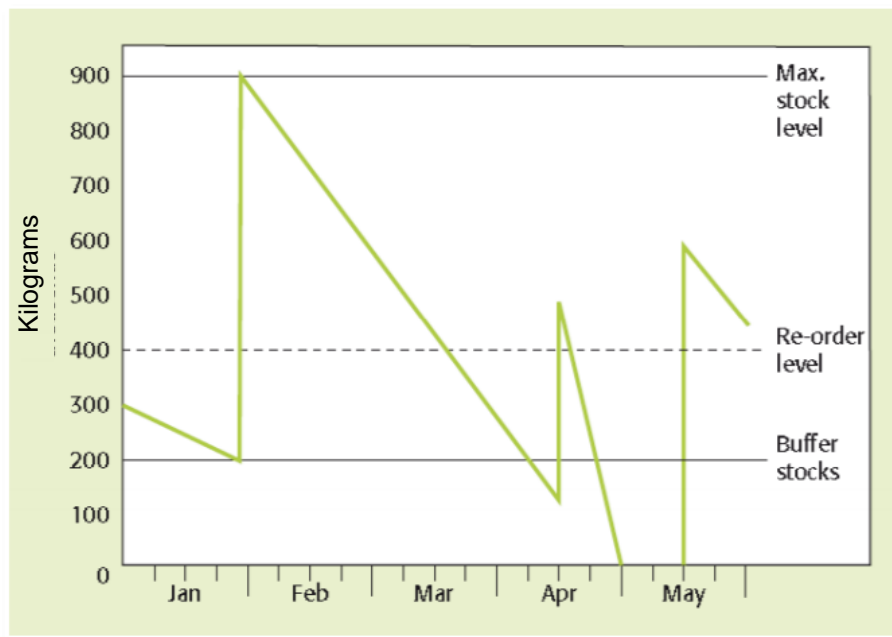
- a. With reference to As Fair As, outline **two** ways a target market (line 7) can be segmented. **[4 marks]**
- b. With reference to As Fair As, explain why businesses may experience diseconomies of scale (line 67) as they grow. **[6 marks]**

SECTION B

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

QUESTION FOUR

Each retail store at As Fair As uses a just-in-case stock management system. The just-in-case stock management system diagram for an AFA store, for the coffee it stocks and sells, is shown below. It is apparent that despite the company's best efforts, sometimes stock-outs do occur and result in an inability to maintain supply to their valued customers.



- a. Calculate the lead time between ordering goods in March and receiving them. **[2 marks]**

- b. Outline why stocks fell to zero in April. **[2 marks]**

Kim knows from experience that opening new shops enables As Fair As to continue to grow. He has identified an investment opportunity to open another new branch in one of two locations – the business cannot afford both. Kim has forecasted the following annual net cash flows for these two locations. The forecasts are based on his experience, market research and cost estimates. Sam also believes that AFA should continue to open new shops and invest in its future.

If the new shop makes financial sense, then Sam is confident he can recruit a new manager for this shop. He knows a current retail manager who is looking for a change, and who wants to join an ethical retail company.

However, Sam And Kim know that while each new retail store they have opened has added to the company's overall profitability, new stores can cause overall liquidity issues in their first year of operation.

Further, Finn has concerns about adding new retail stores as he believes that the current management system is unable to cope with the organic growth of the business.

The cash flows are as follows:

Table 1: Forecasted net cash flows for the new shop

Net cash flow for new shop			
Year	Location A	Location B	Discount factor
0	(\$120,000)	(\$180,000)	-
1	\$50,000	\$60,000	0.91
2	\$40,000	\$50,000	0.83
3	\$40,000	\$50,000	0.75
4	\$40,000	\$50,000	0.68
5	\$40,000	\$50,000	0.62

c. Using the information in Table 1 above to:

- i. Calculate the payback period for both projects **and** comment on your results. **[4 marks]**

- ii. Calculate the net present value for both locations **and** comment on your result **[4 marks]**

d. Using information in Table 1, discuss the impact of opening new retail stores on the liquidity position of As Fair As **and** strategies the business could use to improve its cash flows when a new retail store is opened. **[8 marks]**

Additional information

There is no additional information in this paper for Sections A and B.

SECTION C

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

QUESTION FIVE

5. Sam had been thinking about how his company, As Fair As, could best meet the challenges that future growth would bring. In preparing to meet with his senior management team Sam has done some thinking.

He prepared a Lewin's forcefield analysis which suggested that a restructuring of the company was necessary. Sam believes that he has a leadership style that would reduce opposition and resistance to any possible restructuring, and that his approach would be better than forcing through unpopular changes in an autocratic manner.

There are three new objectives that Sam would like to recommend in pursuit of the company's aims. These are:

1. Sam would like to formally implement the motivational theory of Daniel Pink company-wide. Sam, himself, would be responsible for AFA adopting Pink's theories.
2. He believes that the following organisational structure would increase intrinsic motivation at AFA (see Figure 1, below) because it is less hierarchical than the current structure. A new senior management position would be established, that of Chief Marketing Officer.

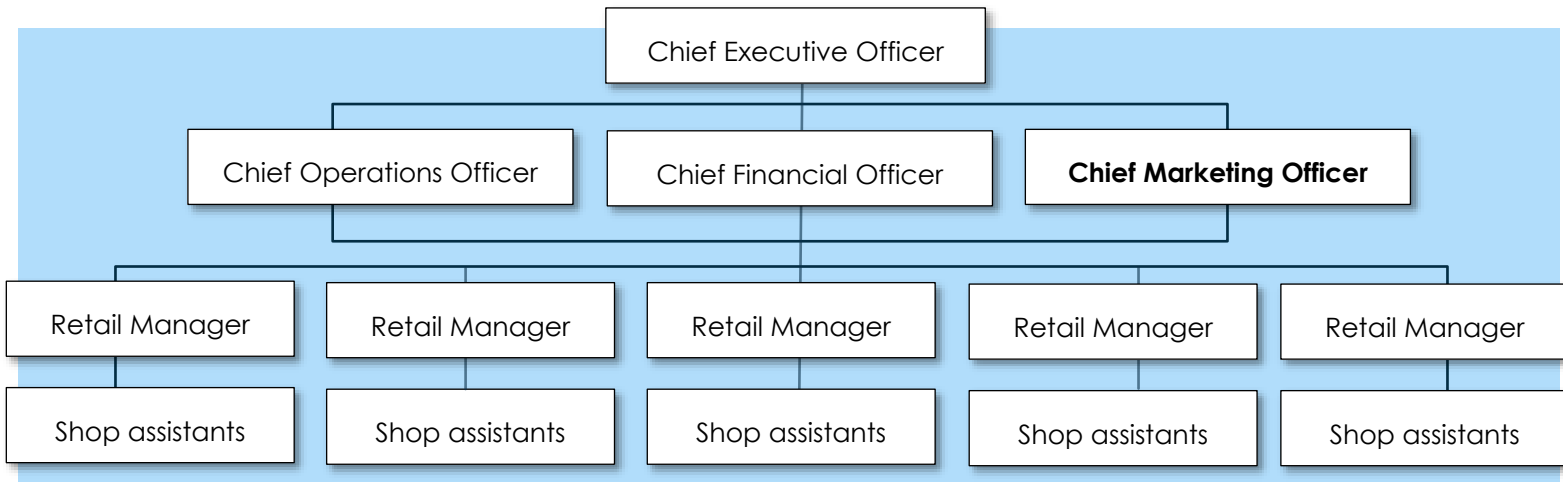


Figure 1: Proposed organisational structure of AFA

3. His most radical objective is to change the legal form of organisation of AFA to that of a cooperative, which Sam believes is more aligned to a for profit social enterprise.

Sam plans to present his proposal to his board of directors and senior management team, but before doing so, he has contracted a business consultant to evaluate his three recommendations.

As that business consultant, using the case study and the additional information on pages 4 to 6, discuss the proposed objectives in relation to the aims of As Fair As.

You will find it useful to:

- a. Outline the driving and restraining forces for restructuring by applying a formal decision-making framework.
- b. Evaluate the proposed organisational structure and explain whether it is a good match for **both** Sam's leadership style **and** the motivational theory of Daniel Pink.
- c. Evaluate whether the cooperative would be the most appropriate legal organisation for As Fair As.

[20 marks]