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—Visionary IB Education—
Success in the IB Diploma

BUSINESS MANAGEMENT

STANDARD LEVEL

PAPER 1

Practice examination 2018 – **As Fair As**

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 – 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.
- 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 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

One of the objectives of As Fair As is to grow organically by increasing sales. 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
0	(\$120,000)	(\$180,000)
1	\$50,000	\$60,000
2	\$40,000	\$50,000
3	\$40,000	\$50,000
4	\$40,000	\$50,000
5	\$40,000	\$50,000

Sam wants to change the legal form of organisation of As Fair As to that of a cooperative, which Sam believes is more aligned to a for profit social enterprise.

Further, Sam 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.

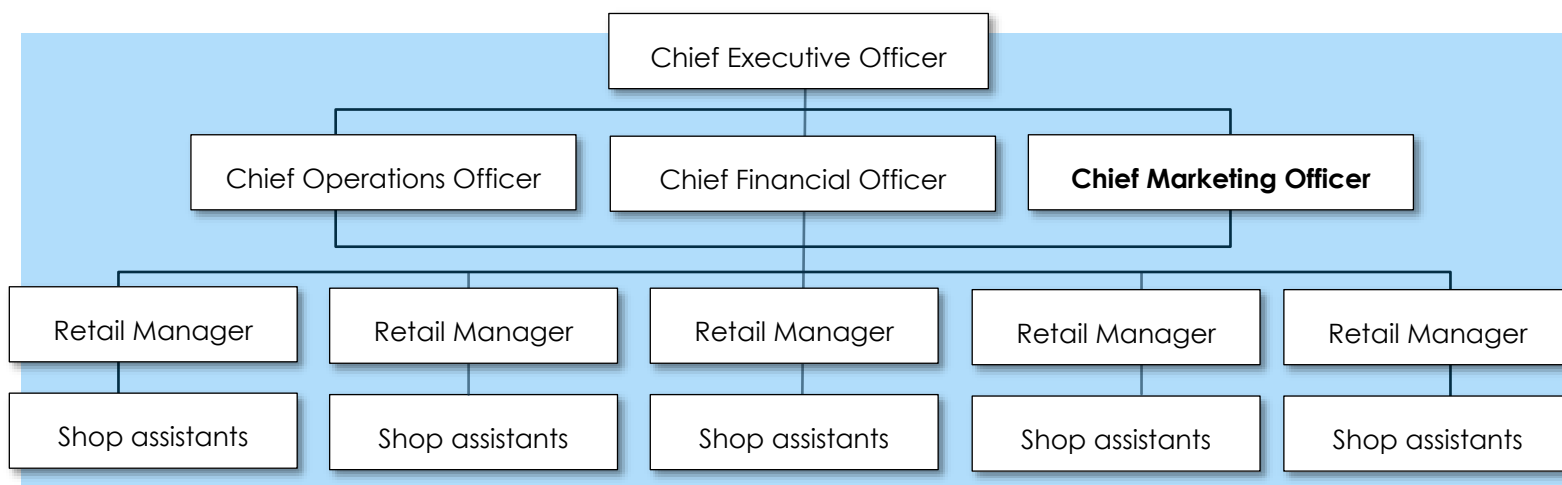


Figure 1: Proposed organisational structure of AFA

- a. Financial analysis. Using the information in Table 1 above to:
- Calculate the payback period for both projects. **[2 marks]**
 - Calculate the average rate of return for both locations. **[2 marks]**
- b. Define cooperative (line 92). **[2 marks]**
- c. With reference to As Fair As, explain the importance of positioning (line 97). **[4 marks]**
- d. With reference to **both** Sam's leadership style **and** the motivational theory of Daniel Pink (line 94), discuss the proposed organisational structure for As fair As. **[10 marks]**