

Key Terms in Context: Activity III



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IB BUSINESS MANAGEMENT – PRE-RELEASED CASE STUDY MAY 2018: KEY TERMS: ACTIVITY III

Find the key terms and use the **insert Endnote function in MS Word** to match the term with the correct definition.

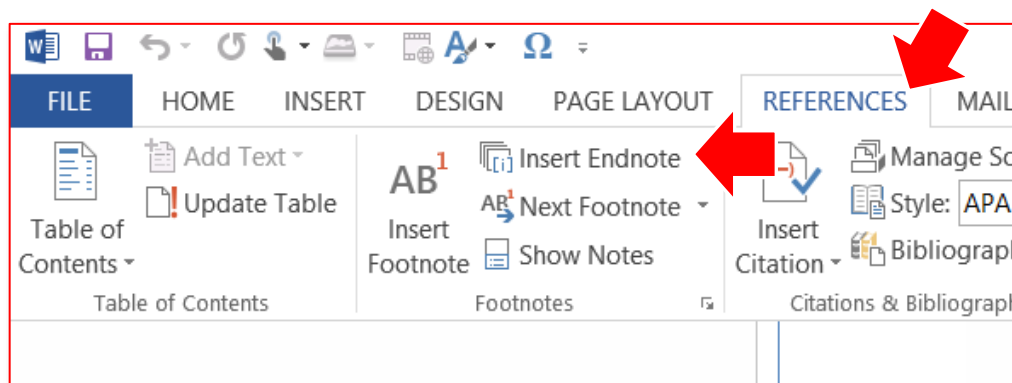
Complete this activity and you will now have meaning in the context of the case study – genius!

LIST OF KEY TERMS – ALPHABETICAL ORDER

Business	Employees	International trade
Capital expenditure	Empowers	Investment
Cash-flow	External environment	Junior employees
Cash-flow forecast	External stakeholders	Leadership
Cellular manufacturing	Facilities	Leadership role
Commercial marketing	Falling currency	Loans
Commissioned	Finance	Local agents
Complex transport links	For-profit	Local distribution
Conflict	Free market economy	Location
Contingency plan	Fundraising	Low rent
Coordinating	Government assistance	Managers
Customer finance	Government organizations	Manufacture
Customers	Grants	Manufacturing
Developed economy	High rent	Market orientated
Developing economy	Human resource planning	Market research
Directing staff	Infrastructure	Marketing
Distribution	Input	Marketing department
Efficiently	Internal stakeholders	Marketing planning

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Microfinance	Production facility	Stable political environment
Microfinance provider	Project	Stakeholders
Mission	Promotion methods	Straightforward transport links
Motivated	Purchase	Strategic decision making
Non-governmental organizations (NGOs)	Quality issues	Strategic partner
One party state	Raw materials	Suppliers
Opportunity cost	Remote locations	Tactical decisions
Organizing	Resources	Team
Other costs	Responsibility	Teamwork
Outsource	Risks	Trading agreement
Political environment	Sales costs	Transport links
Poor infrastructure	Selecting	Units
Pricing	Senior managers	Very low price
Private limited company	Share capital	Volunteers
Produced	Skills level	Wage costs
Product	Social enterprise	Working practice
Product orientated	Social marketing	
Production director	Stable currency	





M18/3/BUSMT/BP1/ENG/TZ0/XX/CS

Business management
Case study: Afghan Sun

For use in May 2018

Instructions to candidates

- Case study booklet required for higher level paper 1 and standard level paper 1 business management examinations.

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Afghan Sun (AS)

Suchenlin has made her fortune from the success of her **business**¹, *High-end Holidays (HH)*, which sells individually designed holidays to luxury destinations in Africa, Asia and the Pacific islands. Suchenlin no longer takes part in the day-to-day running of *HH*. Instead, she has an **input**² into strategic decision making and she provides the inspiration for the business.

- 5 Su, as her friends know her, has made more than enough money to keep her comfortable for the rest of her life, but she still wants new challenges. She is looking for a completely new project that will allow her to give back to society.

10 On a recent trip to Bangladesh, Su discovered the work of Arif Koomar. He founded a forprofit microfinance provider, which trades under the name *AK Bank*. Very successful, *AK Bank* serves much of Bangladesh and has provided finance to over three million households to buy solar power systems specifically commissioned by *AK Bank*. Each solar power system generates enough electricity for a household.

15 Su made an immediate decision. She would find somewhere else in the world in which a similar scheme would bring great benefits to communities. She eventually identified Afghanistan, a country with around 34 million people. After years of war, many areas of Afghanistan lack a reliable supply of electricity. Su saw an opportunity to manufacture a household-based solar power systems similar to those used in Bangladesh and aimed at poor and often remote families. She set up a social enterprise called *Afghan Sun (AS)*, which operates as a private limited company. Su recruited a team of volunteers from *HH* employees who are keen to work
20 on the project.

After more detailed research, the team had:

- decided the product to be made – solar power systems. These will be produced using cellular manufacturing. The team wish to purchase cheap raw materials, using resources efficiently to cut waste to enable a very low price to be charged for the units
25 identified suppliers who share Su’s vision
- encouraged Arif Koomar to work with *AS* and expand the microfinance activities of *AK Bank* into Afghanistan.

30 Su thinks it very important that she maintains a leadership role for both *HH* and *AS*. However, she empowers her managers at *HH* to make day-to-day decisions, including organizing resources, directing staff, coordinating, and taking tactical decisions. As well as empowering managers, Su thinks that it is important to empower employees and encourage teamwork by creating opportunities for employees to discuss working practice, quality issues and matters concerning employees. Su’s intention is to empower managers similarly at *AS* while retaining responsibility for strategic decisions. She believes that her managers are so well motivated and
35 committed to their work that she feels little need to interfere. There is seldom conflict between managers, but when there is, Su will provide advice and guidance. Managers, both at *HH* and *AS*, say that they are inspired by Su and have a clear understanding of her mission and share it. As part of her leadership role, Su also enjoys some aspects of organizing, particularly when fundraising events for *AS* are needed and meetings have to be arranged with governments
40 and non-governmental organizations (NGOs). She usually represents the businesses at such meetings and conferences.

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To help begin the project to make and sell solar power systems, Su appointed David, who, before asking to work on the AS project, worked in HH's marketing department. He is an Afghan. She also appointed Salima, also an Afghan, who has experience with a large
 45 manufacturing business as a production director. Two more senior managers will be needed, and Su needs to decide between selecting experienced HH managers or promoting junior employees from within HH.

Salima does not want to outsource the main production facility of the solar power systems but does wish to outsource the production of certain components. Ideally, this would be in nearby
 50 countries.

An important decision to be made is the location of the main production facility for the solar power systems. Su is considering two locations, as shown in Table 1.

Table 1: Location factors of the two countries Su is considering for the main production facility

	Country A	Country B
Nature of the economy	Developed economy	Developing economy
Unemployment	Low but rising	High
Skills level	High	Shortage of skills
Government assistance	Limited, free market economy	Encourages investment from overseas with grants available
Local wage costs	High	Low
Currency	Stable	Falling
Facilities	New facilities would be required, high rents	Suitable facilities available at a low rent
Transport links to Afghanistan	Complex	Straightforward
Political environment	Stable, but election may lead to a change in government	One party state
International trade	Part of a major trading agreement	No major trading agreements

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David believes that commercial marketing would have more of an impact than social marketing because he sees the solar power systems as being product orientated rather than market orientated. Customers would need to know not only about the solar power systems and the benefits they will bring to households but also the means to provide finance to buy them. However, David is unsure about which pricing and promotion methods would be appropriate for the solar power systems. Customers may not have much money to spend and may have other priorities.

Distribution will also be a problem, as the likely customers will be in remote locations with poor infrastructure. David is investigating the possibility of using local agents and local transport businesses to provide the link with customers.

Su had already decided that most of the finance for the production facilities would come from share capital provided by herself and loans from *HH*. She wondered whether other stakeholders in *HH*, both internal and external, might want to support the project through some kind of financial assistance. The microfinance to *AS*'s customers would be under completely separate arrangements with *AK Bank* or other microfinance providers.

Su prepared a six-monthly cash-flow forecast for the first three years of operation.

Table 2: Six-monthly cash-flow forecast for *AS* for the first three years of operation (figures in \$000s)

	2018	2019		2020		2021
	Second half	First half	Second half	First half	Second half	First half
Opening balance	0	30	-25	-20	-5	15
Su's share capital	200					
Loans from <i>HH</i>	50					
Sales	0	20	80	120	120	160
Capital expenditure	200	50	25	25	10	10
Sales costs	0	15	40	60	60	70
Other costs	20	10	10	20	30	40
Closing balance	30	-25	-20	-5	15	55

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70 Su is aware that the project carries significant risks. Afghanistan is emerging from a long and damaging war, and in some parts of the country it remains politically unstable. Not all areas of the country are peaceful. International forces remain in the country to help rebuild its infrastructure and help the Afghan government restore peace and reinforce democracy.

75 The management of AS need to make the decisions on production and distribution as soon as possible to get the project into action. Su is also aware that she may have to create a plan to help out when things go wrong and to prepare for possible changes in the external environment. AS will have to carry out very careful marketing planning and human resource planning, as well as ensure it is prepared for uncertainties

Companies, products, or individuals named in this case study are fictitious and any similarities with actual entities are purely coincidental.

Source: BusinessManagementIB.com

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¹ Any organisation that uses resources to meet the needs of customers by providing a product or service that they demand. They identify the needs of consumers or other firms. They then purchase resources, which are the inputs of the business or factors of production, to produce output. The 'outputs' of a business are the goods and services that satisfy consumers' needs, usually with the aim of making a profit.

² A resource (factor of production) used in the production process (e.g., labour, raw materials, etc.) to produce an output – a good or a service.

Source: BusinessManagementIB.com