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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~~

Capital expenditure

Cash-flow

Cash-flow forecast

Cellular manufacturing

Commercial marketing

Commissioned

Complex transport links

Conflict

Contingency plan

Coordinating

Customer finance

Customers

Developed economy

Developing economy

Directing staff

Distribution

Efficiently

Employees

Empowers

External environment

External stakeholders

Facilities

Falling currency

Finance

For-profit

Free market economy

Fundraising

Government assistance

Government organizations

Grants

High rent

Human resource planning

Infrastructure

Input

Internal stakeholders

International trade

Investment

Junior employees

Leadership

Leadership role

Loans

Local agents

Local distribution

Location

Low rent

Managers

Manufacture

Manufacturing

Market orientated

Market research

Marketing

Marketing department

Marketing planning

Microfinance

Microfinance provider

Mission

Motivated

Non-governmental organizations (NGOs)

One party state

Opportunity cost

Organizing

Other costs

Outsource

Political environment

Poor infrastructure

Pricing

Private limited company

Produced

Product

Product orientated

Production director

Production facility

Project

Promotion methods

Purchase

Quality issues

Raw materials

Remote locations

Resources

Responsibility

Risks

Sales costs

Selecting

Senior managers

Share capital

Skills level

Social enterprise

Social marketing

Stable currency

Stable political environment

Stakeholders

Straightforward transport links

Strategic decision making

Strategic partner

Suppliers

Tactical decisions

Team

Teamwork

Trading agreement

Transport links

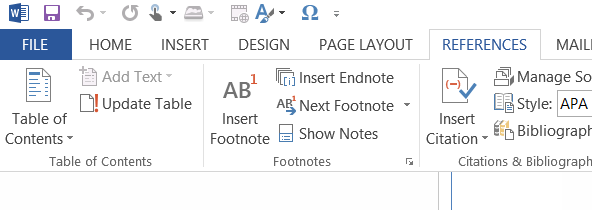
Units

Very low price

Volunteers

Wage costs

Working practice



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



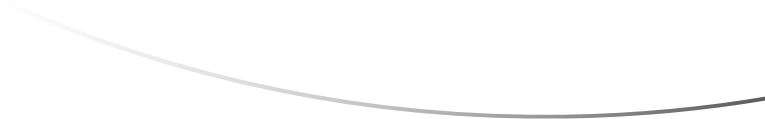
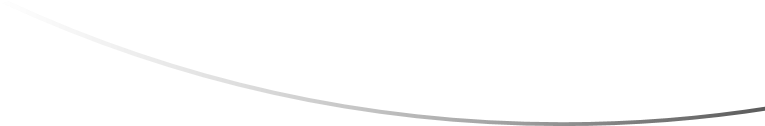
**Business management**

**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.



**Afghan Sun (AS)**

Suchenlin has made her fortune from the success of her business[[1]](#endnote-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]](#endnote-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.

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*

10 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.

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

15 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.

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

30 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.

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 countries.

50

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 |

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

55 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.

60 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

65 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  *HH* | 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 |

Su is aware that the project carries significant risks. Afghanistan is emerging from a long

70 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.

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

75 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:* [***Business****Management****IB****.com*](http://www.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. [↑](#endnote-ref-1)
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. [↑](#endnote-ref-2)