



IB DIPLOMA PROGRAMME  
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M07/3/BUSMT/SP2/ENG/TZ0/XX



22075014

**BUSINESS AND MANAGEMENT  
STANDARD LEVEL  
PAPER 2**

Friday 18 May 2007 (morning)

1 hour 30 minutes

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**INSTRUCTIONS TO CANDIDATES**

- Do not open this examination paper until instructed to do so.
- Answer three questions.

**1. Eye-Spy**

*Eye-Spy* sells sunglasses in a range of colours and designs targeted at teenagers. They are sold as a fashion accessory by several department stores. Each pair of sunglasses costs \$6 to manufacture and is supplied with a neck chain and protective case. *Eye-Spy* purchases each chain at \$1 and pays \$60 for 100 protective cases. The annual fixed costs of the business are \$240 000.

The sunglasses are sold to retailers in batches of 50. Each batch sells for \$600. The distribution cost per batch is \$20. Annual sales for 2006 were 96 000 sunglasses, a sales level 25% above 2005. The factory is working at full capacity. As a result the management of *Eye-Spy* are considering expanding potential output by renting a new factory unit, which would increase annual fixed costs by \$40 000. Wage incentives for the proposed higher output will increase manufacturing costs by \$1 per pair of sunglasses, but this will be passed onto the department stores by increasing the batch price of 50 sunglasses to \$650. The increase in capacity will allow *Eye-Spy* to produce a further 24 000 sunglasses per year.

- (a) Calculate
- (i) the present variable cost of producing and distributing a batch of 50 sunglasses, including chains and cases. [3 marks]
  - (ii) the contribution made on the sale of each pair of sunglasses. [2 marks]
- (b) Construct a fully labelled break-even chart for 2006 to show the following:
- (i) the annual unit sales of sunglasses that *Eye-Spy* require to break-even.
  - (ii) the annual margin of safety.
  - (iii) the profit for 2006 at full capacity. [8 marks]
- (c) Using financial and non-financial information from the text, evaluate the proposal to expand production of *Eye-Spy* sunglasses. [7 marks]

## 2. Crucible database

*Crucible*, a subsidiary of the supermarket chain *Tesco*, is collecting detailed information to construct a database on every household in the UK. This contains data on every consumer across a range of demographic, socio-economic and lifestyle characteristics. *Crucible* is then selling consumer profiles to other big companies such as *BMW*, *Coca-Cola*, *Sky* and *Orange*.

These profiles show how an individual works, thinks and, most importantly, shops. Consumers are classified across ten categories: wealth, promotions, travel, charitable giving, environmental awareness, leisure time, credit status, living style, creatures of habit and adventurous. The database includes both primary and secondary data. Much of the data comes from *Tesco's* store and loyalty cards, but other data is purchased from private market research companies and government agencies. Other personal information comes from questionnaires and surveys. The profiles can be used to target customers with particular products and services and to support decisions on where to locate new retail stores.

[Source: adapted from: *The Guardian*, 20 September 2005]

- (a) Explain what is meant when *Crucible* is described as a subsidiary of *Tesco*. [2 marks]
- (b) (i) From the text identify **two** examples of primary research and **two** examples of secondary research. [4 marks]
- (ii) Analyse the advantages **and** disadvantages of primary and secondary research to *Crucible*. [6 marks]
- (c) Discuss, with practical examples, how the *Crucible* customer database can help companies, such as *BMW*, *Coca-Cola*, *Sky* and *Orange*, make successful business decisions. [8 marks]

### 3. Dell Personal Computers

*Dell* accounts for 18% of the global market in personal computers (PCs) with a 34% market share in America. It assembles its computers from parts sourced around the world. *Dell* uses a direct-selling business model. Orders are placed direct over the phone and the Internet, bypassing retailers and therefore cutting costs. This allows *Dell* to undercut competitors on price, provide better service and still have higher profit margins.

In 2005, Michael Dell targeted sales growth of \$80 billion over four years, mostly in Asia and Europe. However, despite the best market in PCs for five years, *Dell's* revenue growth was less than expected. The arrival of low cost Asian competition, such as China's *Lenovo* and *Acer* of Taiwan, threatens *Dell's* market dominance. *Dell* is a victim of its own success, becoming increasingly hard to manage because of its size, broadening product line and its international expansion.

Online sales of all products are growing rapidly worldwide with e-commerce sales in the American market growing by 56% during 2005. The growth of faster broadband networks means "on-line window shopping" is quicker and easier. *Dell* is forecasting 400 million broadband subscribers worldwide by 2009.

[Source: adapted from: *The Sunday Times*, 24 April 2005 and 11 September 2005]

- (a) Explain what is meant by the term "*profit margin*". [2 marks]
- (b) Examine **two** reasons why increasing size makes *Dell* harder to manage. [4 marks]
- (c) Analyse the advantages **and** disadvantages of *Dell* targeting overseas markets for future sales growth. [6 marks]
- (d) Evaluate the use of Internet sales used by *Dell* to distribute its PCs. [8 marks]

#### 4. Corporate Social Responsibility (CSR)

Companies are increasingly required by governments to be responsible to act for the benefit of their stakeholders and society in general. The law requires companies to report on their external impacts, such as effects on the environment. Company websites emphasize their good citizenship, including their values, philosophies and social and environmental reports. Financial institutions are also demanding that the companies they invest in behave responsibly.

Supermarkets, for instance, realised about five years ago that customers wanted a broader range of ethical and fair trade products on the shelves. These guarantee above market prices to farmers and require factories to meet strict health and safety and environmental standards.

A recent survey showed that 80% of employees would prefer to work for a company that has ethical guidelines. It is surprising, therefore, that there is little relevant training for staff about the effective implementation of a company's ethical policies. The Institute of Business Ethics (IBE) found that less than half of companies (45%) provide ethics training to their staff. Indeed, only a quarter of chief executives consider themselves directly responsible for the ethical conduct of their companies.

[Source: adapted from: <http://observer.guardian.co.uk>, 21 March 2004 and [www.guardian.co.uk](http://www.guardian.co.uk), 10 March 2005]

- (a) (i) Identify **four** stakeholders of the companies referred to in the passage. *[4 marks]*
- (ii) Explain how the introduction of ethical policies can cause conflicts between **two** stakeholder groups identified in (a)(i). *[4 marks]*
- (b) Analyse the advantages **and** disadvantages to a company of implementing socially responsible and ethical objectives. *[6 marks]*
- (c) Discuss how ethical approaches can be integrated into a company's marketing strategy to provide competitive advantage. *[6 marks]*

## 5. Leadership

❶ *“Effective leaders are those with sufficient self-confidence to gather round them people who are better than they are and then let them get on with their job without interfering.”*

Niall Fitzgerald, Chairman Reuters

❷ *“When a boss tells you to pick up a pig and walk, you pick it up and walk, and when he tells you to sit down and rest, you sit down. You do that right the way through the day. And what’s more, no back talk.”*

F W Taylor, Scientific Manager

❸ *“The leadership style common in many family businesses tends to create employees of marginal ability. Owners acting as “parents” tend to do things and make decisions for employees rather than forcing them to take the initiative.”*

Quentin Fleming, Keep the family baggage out of the family business

❹ *“Leadership is the activity of influencing people to cooperate towards goals and objectives which they come to find desirable.”*

Ordway Tead, Educator

❺ *“A leader has got to have an ability to switch 360 degrees from strategic thinking to narrow operational focus when required.”*

Tony Tahar, CEO, Anglo-American

- (a) Identify and explain the **three** leadership styles referred to in quotations  
❶, ❷ and ❸. [6 marks]
- (b) (i) With reference to quotation ❹ explain the importance of objectives in  
managing an organization. [3 marks]
- (ii) With reference to quotation ❺ distinguish between objectives,  
strategies and tactics. [3 marks]
- (c) Evaluate the effect of different leadership styles within organizations. [8 marks]
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