



IB DIPLOMA PROGRAMME  
PROGRAMME DU DIPLÔME DU BI  
PROGRAMA DEL DIPLOMA DEL BI

M07/3/BUSMT/HP2/ENG/TZ0/XX



22075012

**BUSINESS AND MANAGEMENT  
HIGHER LEVEL  
PAPER 2**

Friday 18 May 2007 (morning)

2 hours 30 minutes

---

**INSTRUCTIONS TO CANDIDATES**

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

## 1. Buenos Aires Stock Exchange

The Buenos Aires Stock Exchange has created a new market for small and medium sized firms. *Petroquímica Argentina SA* will be the first firm to sell its shares on this market, after having recently done its “road show”\* before potential investors. Four more firms are planning to float their shares on this market in the near future.

The process of floating the company is a complex process that includes:

- signing a letter of intent
- designing a prospectus for potential investors
- presenting balance sheets and a Memorandum of Association for approval from the Stock Exchange authorities.

When the deadline for the share issue is reached, the selling price of the shares is set and the initial public offer is made, after which the shares are traded on the stock exchange.

The principal activity of *Petroquímica Argentina SA* is the production and development of additives for the food industry. Its sales revenue is US\$6 million a year and it controls 75% of the argentine market, and more than 55% of the brazilian market for additives. It competes with multinationals like *Basf* and *Hoechst* in a world market of food inputs that is worth US\$1100 million a year.

Patlis, the chief executive officer (CEO) of the firm, explained that “to remain competitive we need to raise finance for growth but interest rates are too high and so we will be floating 15% of the value of the company. We will be investing the funds raised in quality control and research and development”.

[Source: adapted from *Fortuna Magazine*, 28 November 2005]

---

\* road show: presentation of prospectus to potential investors

- (a) (i) Identify **two** ways the size of a firm can be measured. [2 marks]
- (ii) Explain why *Petroquímica Argentina SA* needs to grow. [4 marks]
- (b) Examine the advantages **and** disadvantages of *Petroquímica Argentina SA* raising finance by floating shares on the Stock Exchange. [6 marks]
- (c) Two years after floating 15% of their shares *Petroquímica Argentina SA* is considering financing further growth by issuing more shares to the public. At the same time *Basf* has put up a takeover bid to purchase 100% of the company.
- Evaluate both options and make a recommendation to the shareholders. [8 marks]

## 2. Cyber Coolies

Vinita Rawat is a post-graduate student in English literature who works in a call centre in India which handles claims enquiries for a British insurance firm. According to a study into conditions inside call centres conducted by a government-funded research institute, Vinita is a prime example of an Indian “cyber coolie” – an expensively educated, highly intelligent graduate, who is, arguably, wasting her talents performing exhausting, mindlessly repetitive tasks for the call centre industry.

The report has triggered a debate on the ethics of the offshoring industry. Over the past few years offshoring has been cited as a positive aspect of globalization – providing good salaries and new career opportunities in the developing world. However, some people argue that traditional forms of labour exploitation continue. The study claims that the emerging offshoring industry has developed a system for hiring workers with limited labour rights and little job security. Despite the relatively high salaries, and modern working environments, the study concludes that “most of these youngsters are in fact burning out” doing low-end jobs.

The true monotony of the work is disguised by “camouflaging work as fun” – for example, introducing cafes, popcorn machines and leisure facilities. Meanwhile, quotas for calls or e-mails are fixed at such a high level “that the agent has to burn out to fulfill it”, the report claims.

Trade union\* activists have welcomed the study. Gautam Mody, a labour activist working to introduce call centre unions, said “call centres are looking for people who simply accept commands and carry them out without question”.

[Source: adapted from *The Observer*, Sunday 30 October 2005]

---

\* trade union: an association representing the interests of employees

- (a) Explain **one** advantage and **one** disadvantage to British firms of offshoring. [4 marks]
- (b) (i) Describe **two** objectives of a trade union. [2 marks]
- (ii) Examine how a call centre trade union could affect the employees. [6 marks]
- (c) Using appropriate motivational theories, analyse the methods used by call centres to get the best performance from their employees. [8 marks]

### 3. Global Brand Values

In 1984, Professor Leavitt argued that technology had created a world in which consumer tastes were converging and that successful businesses should market globally standardized products. It is no accident that the companies with the biggest increase in brand value in 2005 operate as single brands everywhere in the world to create a consistent impact. The global bank *HSBC*, for example, increased brand value by 20% by using the same advertising message worldwide.

The traditional approach of building brands through the mass media is over. TV networks have split into hundreds of cable channels, and specialist magazines aimed at smaller groups have replaced mass-market publications. Today, brands increasingly use traditional advertising as just one tool in an overall marketing plan. New generation brands, including *Amazon* and *e-Bay*, have gained huge global value with little traditional advertising. Even older brands, such as *Coca-Cola*, and *McDonalds*, are decreasing traditional spending. *McDonalds* cut TV advertising from 80% to 50% of its marketing budget in 2004.

Promotion has shifted to online advertising and into video games and films, often aimed at children. The Korean electronics manufacturer, *Samsung*, the biggest gainer in brand value in 2005, promoted its brand through entertainment and sponsored the movie, “The Fantastic Four”, in which a variety of *Samsung* gadgets played a part.

[Source: adapted from *Global Brands Business Week*, July 2005 and *Should Global Brands Trash Local Favourites?* brandchannel.com]

- (a) Examine the advantages **and** disadvantages of firms like the bank *HSBC* operating as a single brand around the world. [6 marks]
- (b) Evaluate possible primary **and** secondary market research that companies, like *Coca-Cola* and *McDonalds*, can conduct to ensure new promotional approaches are effective in targeting existing and potential customers. [8 marks]
- (c) Using examples, explain the impact of new technologies and advertising media on the marketing objectives and promotional strategies of large corporations. [6 marks]

#### 4. Zesty

*Zesty* is a family owned partnership that grows oranges in Florida USA, for the export market. It currently exports fresh oranges to Japan and Canada. Federal agricultural officials are predicting a 29% increase in the orange crop next year. In anticipation of this, *Zesty* have launched an orange juice drink using fresh orange juice. They have marketed the drink using a product orientated approach rather than a market orientated approach.

Each year *Zesty* undertakes a SWOT analysis to help determine its strategic and operational objectives. An extract from the opportunities and threats section of the SWOT analysis is shown below:

##### Opportunities

- a 50% smaller orange crop in Brazil, the market leader
- significant growth in domestic sales of frozen concentrated orange juice
- US government negotiations with Cuba to establish a free trade agreement
- a promotional campaign by the Florida Citrus Growers Association (FCGA)
- favourable long-term weather forecasts
- a reduction in interest rates by the Federal Reserve.

##### Threats

- the spread of citrus diseases as a result of Hurricane Gloria
- labour shortages
- a slowing world economy
- new standards for grades of oranges developed by the United States Department of Agriculture
- an appreciation in the value of the US dollar.

- (a) Describe **one** disadvantage to *Zesty* of being a partnership. [2 marks]
- (b) Distinguish between strategic objectives **and** operational objectives. [4 marks]
- (c) Examine *Zesty's* decision to use a product-orientated approach rather than a market-orientated approach to increase its sales revenue. [6 marks]
- (d) To what extent is
- (i) a 50% smaller crop in Brazil an opportunity for *Zesty*?
- and
- (ii) an appreciation in the value of the US dollar a threat to *Zesty*? [8 marks]

## 5. Kmart and Sears to challenge Wal-Mart

*Kmart*, the giant US discount retail store, mounted a challenge to *Wal-Mart*'s dominance of the US retail market with an \$11 billion merger with *Sears Roebuck*, the department store group. The deal, the biggest retail merger in US history, created the third largest American retail chain with 3500 outlets and annual sales of \$55 billion. In reality, the merger was closer to a takeover with the new board dominated by *Kmart* directors.

*Kmart* has always focused on out of town stores with a traditional customer base. *Sears* has located more in shopping malls and has targeted younger and more adventurous customers. Chairman Ed Lampert said, "We don't want two separate cultures, but to blend it into one great corporate culture. The idea is to make the stores more competitive while staying focused on the customer".

The enlarged group, called *Sears Holdings*, is expected to achieve savings of \$500 million through economies of scale. The company says that combining the two businesses together will make buying, marketing and supply chain management more efficient. Savings are expected from improved distribution and shared information and communication technologies (ICT). However, the companies have different systems and applications. Combining them to efficiently support a 3500-store chain is a massive undertaking.

[Source: adapted from *The Times*, 18 November 2004,  
<http://money.cnn.com> and <http://www.cbsnews.com/stories>, 11 November 2005]

- (a) (i) Define the term *takeover*. [2 marks]
- (ii) Explain **two** potential advantages and **one** potential disadvantage of a business, such as *Kmart*, growing through takeover or merger. [6 marks]
- (b) Examine the potential problems of integrating the corporate cultures of **two** large firms such as *Kmart* and *Sears*. [5 marks]
- (c) To what extent can the enlarged group, *Sears Holdings*, use information and communication technologies to improve operations and profit margins? [7 marks]

## 6. Paolo's Pasta

Paolo Cabrini runs a small pasta-making business, called *Paolo's Pasta*. He has borrowed funds to purchase a property, leased machines and employed two staff. His main competitor is called *Fasta Pasta* but there are also a number of general food shops selling fresh pasta as a small part of their product range. Paolo sells his pasta for a premium price of \$7 per kilogram. Full capacity is 12 000 kilograms of pasta per year. He incurred the following expenses in 2007.

Lease costs	\$200 per week
Mortgage payment	\$500 per month
Paolo's salary	\$300 per week
Raw materials	\$1.25 per kilogram (kg) of pasta produced
Wages	\$1.60 per kilogram (kg) of pasta produced
Electricity/gas/water	\$0.15 per kilogram (kg) of pasta produced

*Paolo's Pasta* is currently producing an output of 10 000 kilogram per year. A large hotel chain has approached Paolo and offered to purchase 4000 kilograms per year of pasta at a price of \$4.50 per kilogram. Paolo is considering the offer and believes that it may be worthwhile as he is concerned about sales falling in the future.

- (a) With reference to *Paolo's Pasta*, distinguish between fixed costs and variable costs. [3 marks]
- (b) Construct a break-even graph showing the break-even level of output, the margin of safety and the amount of profit at current output level. (*Show any relevant workings*) [5 marks]
- (c) Paolo is considering changing the price of his pasta. Describe **two** possible pricing strategies and advise Paolo on the most appropriate to adopt. [6 marks]
- (d) Evaluate whether Paolo should accept the offer from the hotel chain. [6 marks]
-