

IB Business Management

CASE STUDY PACK – NOVEMBER 2018

Paul Hoang

As Fair As





How to use the Case Study Pack November 2018

The 120-page Paper 1 Case Study Pack has been produced to help colleagues and students in their preparations for the November 2018 Paper 1 examination (*As Fair As*).

The comprehensive Case Study Pack for *AFA* includes:

1. **Definitions** of all the key terms in the case study. Some 87 key terms/phrases have been identified and clearly defined in the context of the *AFA* case study. This includes an explanation of additional key words/phrases such as:

- International school
 - Fair trade movement
 - Commuters
 - Brick-and-mortar
 - Mystery shopper (secret shopper)

See pages 3 – 15

2. A **stakeholder profile** of all the people and various stakeholders featured in the case study, including Sam, Finn and Kim.

See pages 16 – 19

3. **Weekly comprehension quiz questions** – 10 short comprehension questions each week for 10 weeks to help test students' learning of the *AFA* case study. The first page of each quiz comes with the answers (for teachers) and the second page contains a version for students.

See pages 20 – 39

4. **True or False questions** – 10 questions each week for 10 weeks to test students' recall and understanding of the *AFA* case study. The first page of each quiz comes with the answers (for teachers) and the second page contains a blank version of the True or False quiz for students.

See pages 40 – 59

5. **Wordle quizzes** – A collection of 5 Wordle quizzes to test your student's understanding of the case study. These quizzes are similar to crosswords but contain the answers randomly in a word cloud. The Wordles can also be used as part of a classroom display to trigger students' memory of the *AFA* case study.

See pages 60 – 69

6. An applied **SWOT analysis** of *AFA*. A SWOT analysis is a useful tool for strategic analysis. Whilst the pre-release case study lacks financial information, a fully applied SWOT analysis has been included for the *AFA* case study.



For use in November 2018

See pages 70 – 72

7. A **PEST analysis** for *AFA*. Similarly, a PEST analysis also provides useful information for strategic analysis and for formulating business strategy. A PEST analysis has been included for *AFA*, although there are no data as the specific economy that *AFA* operates in is not mentioned in the case study.

See pages 73 – 74

8. **Exam-style questions** with mark allocations, using learning outcomes from the IB BM syllabus. Choose from 25 exam-style questions that can be used for independent or collaborative work, homework, assessments and/or practise exams. Each of these questions come with mark allocations, command terms and suggested answers.

See pages 75 – 85

9. Separate **Paper 1 mock exams** for HL and SL, with accompanying mark schemes. The Paper 1 *AFA* Case Study Pack includes two full mock exams – one for HL and one for SL, each with an accompanying detailed mark scheme. For the SL mock exam, additional information has been included for Section B. For the HL mock exam, additional information has been included in Sections B and C. *Note:* whilst real data have been included where possible, the additional information in Sections B and C have been included only for the purpose of providing additional practise for the final examination.

SL mock exam paper - See pages 86 – 88

SL markscheme - See pages 89 – 99

HL mock exam paper - See pages 100 – 103

HL markscheme - See pages 104 – 119

Best wishes with the preparations for the November 2018 examinations!

Paul Hoang

27th August 2018

For more hints and ideas for the *AFA* case study, follow the author on Twitter:

@paulhoang88

#IBBusinessManagement

Key Terms

Case Study: As Fair As (AFA)

For use in November 2018



Key terms in *italics* apply to *HL* students only

Developing country (1)

This refers to a low-income country, with a low per capita income and low standards of living. Typically, unemployment is high in developing countries, and the country has a low Human Development Index (HDI). Sam attended school in the capital of a developing country.

Cultures (2)

Culture refers to the norms, beliefs and values of an organization, a collective group of individuals or a community, which shape its practices and characteristics, such as the students from different nationalities who attended the same school as Sam.

Entrepreneur (3)

An entrepreneur bears the financial risks of starting and managing a new business or a commercial venture. Entrepreneurs can develop new products or service ideas, or find a new way of offering an existing product. S/he organizes factors of production to produce goods and/or services and assumes the risks and rewards of running the business. From a young age, Sam demonstrated the skills of an entrepreneur.

Business (4)

A business is a decision-making organization involved in the production of goods and/or services to satisfy a need or a want of customers. It combines human, capital and financial resources to create such goods and/or services. Sam set up his business whilst still at school.

Supermarket (4, 17)

A supermarket is a large retail establishment that sells a broad range of foods and household products. It is a self-service retail store, selling mainly fast-moving consumer goods (FCMGs) such as fresh fruits and vegetables, meat products, bread, milk, drinks, pet food, and toiletry products. Sam, aged 16, purchased chocolates from a supermarket, and resold these with a profit margin to his classmates. After graduating, Sam discovered the only place that sold fair trade products were supermarkets.

Mark-up (5)

Mark-up the value added placed on a product, over and above its cost of production. The mark-up contributes to the payment of expenses (fixed costs), after which the firms starts to earn profit. Sam used a mark-up on the chocolate bars that he sold to his classmates.

Cash (6)

Cash is the most liquid of a firm's current assets. It refers to the money that is readily accessible to the firm, whether it is on the business premises or at the bank. Sam accepted cash only for trading the chocolate bars with his classmates.

Cost-plus (6)

Cost-plus is a pricing strategy that adds a mark-up to the cost of production of a product, ensuring the firm earns a profit margin. This is the pricing strategy that Sam used to sell the chocolate bars when he was of school age.

Key Terms

Case Study: As Fair As (AFA)

For use in November 2018



Key terms in *italics* apply to *HL* students only

Pricing strategy (6-7)

This refers to the pricing method used by a business to sell its goods and/or services. Cost-plus (mark-up) is an example of a pricing strategy. Sam used this pricing method for selling the chocolate bars to his classmates.

Target market (7)

A target market is the group of customers that *AFA* focuses on selling its products to. The customers in each target market share similar characteristics or desires/needs. *AFA* may choose to adapt its marketing (such as cost-plus pricing) to better suit the different profiles of customers that the firm aims its products at.

Prices (8)

Price refers to the value of a good or service that is paid by the customer. Price will usually cover the costs of production, allowing the business to earn a profit margin. Sam charged lower prices for his chocolate products than the high prices at the school shop.

Trade (9)

This refers to the buying and selling of goods and services between customers and businesses. When Sam was at school, he traded chocolate bars to his classmates for cash.

Profit (9)

Profit is the surplus from sales revenue after all production costs have been deducted. It is a fundamental objective of most private sector organizations. In its most simplistic form, profit = sales revenue – total costs. Students at Sam's school were not permitted to trade products for a profit.

Motivation (12)

Motivation is the desire, effort and willingness to complete a task or to achieve something. It can be extrinsic (such as pay and financial rewards) or intrinsic (such as pride, self-esteem, or altruism - the desire to help others). At school, Sam had studied theories of motivation.

Motivation theory (12)

Refers to the academic study of the ideas and principles of what inspires and persuades people to do certain things. Sam had studied the motivation of Daniel Pink's *Drive* theory.

Daniel Pink (13)

In his book *Drive*, Daniel H. Pink outlines three key elements of motivation: autonomy, mastery and purpose. He criticizes the use of 'carrots and sticks' (rewards and sanctions) as methods of motivation, stating they are not appropriate for the 21st Century. At school, Sam had studied Pink's theory; he liked the theory.

Key Terms

Case Study: As Fair As (AFA)

For use in November 2018



Key terms in *italics* apply to *HL* students only

Stakeholders (14)

Stakeholders are the individuals and/or other organizations that have a direct interest in the operations and business affairs of the firm in question. They include internal stakeholders (such as employees, managers and shareholders) and external stakeholders (such as customers, suppliers, the local community, pressure groups and the government). Sam wanted to be a successful entrepreneur in order to make a difference to the lives of the stakeholders of his business.

Secondary market research (15)

Also known as **desk research**, this refers to information collected from second-hand sources (which already exist), all of which are accessible by the public. Sam discovered from using secondary market research that supermarkets were the only place that sold fair trade products.

Non-governmental organization (NGO) (16)

An NGO is a type of non-profit social enterprise that operates in the private sector but does not primarily aim to make a profit. NGOs are established to benefit others in society, such as to meet the needs of the poor or to protect the environment. Sam used market research from an NGO to discover that fair trade products were being sold only in supermarkets.

Products (17)

A product is a good or service which is sold on the market to satisfy the needs and wants of customers. It can be a tangible good or an intangible service. Sam learned that the only place for people to purchase fair trade products was in supermarkets.

Corporate social responsibility (CSR) (18)

This refers to the conscience of an organization, with consideration of its actions on different stakeholder groups and the natural environment. It involves AFA monitoring and ensuring its compliance with the ethical standards of society. Given the nature of his business (selling fair trade stationery products), Sam wanted to practice CSR in his business operations.

Business operations (19)

This is a generic term referring to the commercial activities of an organization. Typically, this would include the interrelated functions of production, accounts and finance, marketing, and human resources in order to sell goods and/or services. Sam wanted CSR to be part of AFA's business operations.

Retail store (20)

Commonly known as a shop, this is the place where a merchant or vendor sells goods and services directly to consumers. Sam wanted to set up a retail store to sell fair trade chocolates.

Funds (20)

This refers to the finance available for business purposes, such as the money for the start-up of a new business venture, the day-to-day running of business, or its expansion. Sam wanted to set up retail store to sell fair trade chocolate, but he did not have sufficient funds.

Key Terms

Case Study: As Fair As (AFA)

For use in November 2018



Key terms in *italics* apply to *HL* students only

Marketing plan (21)

A marketing plan outlines an organization's marketing objectives and the strategies to achieve these goals. It typically includes marketing objectives, market research, competitor analysis, and an outline of the marketing mix, and marketing budgets. In an attempt to secure sufficient funds for his business plan, Sam created a marketing plan for a local bank manager.

Manager (21, 41, 58)

A manager is responsible for the day-to-day running of a business or a department within the organization. Sam sought to secure finance from the local bank manager. Four managers were used to run the pop-up stalls, but have since been promoted to manage the four retail stores.

Business finance (22)

This refers to the sources of finance by which an organization obtains its money. Business finance can be split into internal sources (such as personal savings and retained profit) and external sources (such as bank loans, hire purchase and leasing). Sam created a marketing plan for the local bank manager in order to secure finance for his business venture.

Accounting and finance (24)

This is one of the key functional areas of a business (the others being operations management, human resource management, and marketing). It deals with the monetary aspects of a business, such as cash flow management and management accounts (the profit and loss account and the balance sheet). Sam has a poor understanding of accounting and finance, so hired Kim as the chief financial officer (CFO) of AFA.

Sustain (Sustainability) (25)

Sustainability is about using the planet's resources in such a way that future generations are not deprived of access to what the current and previous generations have enjoyed. In Elkington's triple bottom line model, sustainability is comprised of three pillars: economic, environmental (ecological) and social sustainability, i.e. profits, planet and people. Sam was unaware that selling only chocolate would not be enough to sustain his business.

Trend (line 28)

This refers to the general direction in which a variable, such as sales or fashion, is developing or changing. Pop-up businesses became a growing trend, which caught the attention of Sam.

Marketing (29)

Marketing is the management process of identifying, anticipating and satisfying consumers' requirements in a profitable way. Sam used marketing in order to raise the finance needed to open his first pop-up stall.

Business plan (29)

A business plan is a written document detailing how a firm sets out to achieve its objectives and the strategies to achieve these goals. It is prepared by the owner(s) and describes the market, sales strategy, operations, financial forecasts, and staffing needs of the business.

Key Terms

Case Study: As Fair As (AFA)

For use in November 2018



Key terms in *italics* apply to *HL* students only

Business goals (31-32)

These are the aims or objectives of an organization. They help to give the organization and its personnel a sense of purpose and strategic direction. Business goals consist of both organizational aims and objectives. Sam's business goals were not seen to be ethical in his application for a business license for his pop-up stall.

Ethics (ethical) (32)

Ethics are the moral principles and values that form the basis of how business operations are conducted. Sam's business goals were not seen to be ethical in his application for a business license for his pop-up stall, so the request was declined.

Ethical objectives (32)

These are the goals of an organization that are based on moral guidelines established by the business. Ethical objectives are shaped by societal norms and expectations of business practices that are deemed to be fair. The local bank manager had declined Sam's application for finance as AFA's business goals were not deemed to be ethical.

Logistics (36)

This refers to the management of the flow of goods from the origin to the final destination (reaching the consumer). It involves the complexities of stock control, warehousing, packaging and transportation. It is about getting the right products to the right customers at the right time, for the right price. Sam's chosen location for the pop-up stall created logistical difficulties.

Location (38)

Location refers to the geographical position or site of an organization. Sam's pop-up stall was located near a local train station, a crowded area with limited space.

Sales revenue (38, 53)

Sales revenue is the income of a business derived from its daily operations, i.e. the total amount of money earned from the sales of a good or service over a period of time. It is calculated using the formula: Price x Quantity sold. AFA's sales revenues grew rapidly due to the high foot traffic of being located in a busy location.

Expansion (expand) (40)

This is the growth of a business due to an increase in the size of the organization and/or growth in the industry. Expansion is usually measured by an increase in variables such as sales revenue, number of employees or profits. Sam decided to expand AFA's product range and to open three additional pop-up stalls (in order to increase sales revenue and profit).

Range (40)

The product range of a business refers to all goods in its product mix, i.e. all the products sold by the business. Sam wanted to expand his product range of fair trade goods at AFA.

Key Terms

Case Study: As Fair As (AFA)

For use in November 2018



Key terms in *italics* apply to *HL* students only

Suppliers (42)

Suppliers are an external stakeholder group that sell goods and services to other businesses.

Sam relies on suppliers of fair trade products, such as chocolate, coffee, clothing and stationery.

Customers (43)

Customer are the individuals or organizations that purchase goods or services from a business.

They are a key external stakeholder group of an organization. All businesses strive to meet the needs and wants of their customers. Fair trade products are very popular with AFA's customers.

Sourced (44)

This refers to where stocks (inventory) or products for sale are obtained from. AFA's fair trade products (including coffee, clothing and stationery) come from local sources.

Order quantity (46)

See **re-order quantity** below.

Re-order quantity (46)

This is the amount of a particular item of stock (inventory) that a firm places to replenish the volume of the product for production or sale. It is shown on a stock control chart, indicated by the numerical difference between the maximum stock level and the buffer stock level. At first, Sam's order and re-order quantities were very small, so many suppliers of fair trade products were unwilling to trade with AFA.

Wholesalers (49)

Wholesalers are businesses that buy large quantities of goods from a manufacturer, and then separate (or 'break') the bulk into smaller units for sale to retailer customers, such as AFA, rather than directly to individual consumers. Sam uses wholesalers that import products from around the globe.

Import (imported products) (49)

Imports are goods and services purchased from an overseas supplier. AFA uses wholesalers that import fair trade products from many parts of the world.

Producers (50)

Producers are businesses that make or supply certain goods and services, either to other business customers or to consumers (the end user). AFA uses local producers (suppliers) that meet fair trade standards.

E-commerce (51)

E-commerce refers to the trading of goods and services via the internet. The increased use of e-commerce can present both opportunities and threats for a business. Sam has created a B2C e-commerce website for AFA to sell fair trade products.

Key Terms

Case Study: As Fair As (AFA)

For use in November 2018



Key terms in *italics* apply to *HL* students only

Business to consumer (B2C) (52)

This is a category of e-commerce that involves businesses using the internet to sell products directly to the end user, i.e. consumers. Sam created a B2C website to sell its fair trade products.

Retail outlets (54)

These are the commercial outlets that sell products directly to consumers. This contrasts with wholesalers and suppliers, who usually sell their products to other business customers. Examples of retailers include convenience stores, shops and supermarkets. By 2017, Sam had opened four AFA retail outlets to sell fair trade products.

Growth (57)

Growth is the expansion of a business due to an increase in the size of the organization and/or growth in the industry. A business can grow internally (organic growth) or externally (inorganic growth). Sam expanded AFA by increasing its product range, developing a B2C website, and opening four retail outlets.

Promotion (58)

Job promotion refers to the career advancement of an employee, either within an organization or externally in another organization. Sam promoted four managers from his pop-up stall to managers of the new retail outlets.

Recruitment (59)

Recruitment is the process of hiring suitable workers. Sam recruited school leavers to replace the managers at the pop-up stalls (who were promoted to managers of the four new retail outlets).

Restructuring (60)

Also known as **reorganization**, this is the act of making significant changes to the organizational structure of a business. The purpose is to improve the organization's financial and operational efficiency. Sam felt the growing complexities (and conflict) at AFA required some form of restructuring.

Partner (61)

This is a co-owner of a partnership agreement. Partners share responsibility for the operations and success of the business. Finn is Sam's second business partner, after having previously hired Kim.

Chief financial officer (CFO) (62)

The CFO of a business is a senior executive with overall responsibility for the organization's finances. This includes the management of the firm's financial planning, master budgets, record-keeping, and financial reporting. Kim is CFO of AFA.

Key Terms

Case Study: As Fair As (AFA)

For use in November 2018



Key terms in *italics* apply to *HL* students only

Chief operations officer (COO) (62)

The COO of a business is the senior executive with overall responsibility for the daily operations of the organization. The COO is typically the second in command, reporting only to the Chief Executive Officer (CEO). Finn is the COO of AFA.

Responsibilities (63)

This occurs when a person is given a task to do which they are required to carry out and be accountable for their actions and the outcome. Sam has overall responsibility for AFA. Finn, Sam's business partner, has responsibility for supervising the four managers of the new retail outlets. Finn is also responsible for AFA's e-commerce website.

Bulk buying (66)

Bulk buying refers to the purchase of goods in large batches in order to gain from economies of scale and operational efficiency. As AFA grew, it was more feasible to buy its fair trade products in larger bulks.

Diseconomies of scale (66-67)

This occurs when a firm operates on a larger scale but suffers from higher average costs of production due to operational inefficiencies. Examples include miscommunications, delayed decision-making, and lack of control or direction from senior management.

Gross profit margin (GPM) (67)

The GPM is a profitability ratio that measures the proportion of gross profit generated from the sales revenue of a business. AFA's GPM was being eroded due to diseconomies of scale.

Net profit margin (NPM) (67)

The NPM is also a profitability ratio but measures the proportion of net profit generated from the sales revenue of a business. The difference between NPM and GPM represents the ability of a firm to control its overheads or fixed costs. AFA is suffering from diseconomies of scale.

Vision (68, 105)

The vision of an organization is where the business aspires to be in the future; the vision is therefore the long term and ultimate goal of the business. Having a vision gives an organization a clear sense of purpose and direction. AFA's vision is to create opportunities for both internal and external stakeholders.

Opportunities (69)

In a SWOT analysis, opportunities refer to changes in the external business environment that create optimistic prospects for a business. AFA's vision is to create opportunities for both their internal and external stakeholders.

Key Terms

Case Study: As Fair As (AFA)

For use in November 2018



Key terms in *italics* apply to *HL* students only

Internal stakeholders (69)

These are individuals or other organizations that are part of the organization, so have a direct interest in its operations and business affairs. Examples include employees, managers and shareholders. As business partners, Sam and Finn are internal stakeholders of AFA.

External stakeholders (69)

These are individuals or other organizations that are not part of the business but have a direct interest in its operations. Examples include AFA's customers, suppliers, competitors, financiers, local communities, and the government.

Costs (70)

Costs are items of expenditure by a business when producing its goods and/or services. Costs can be classified in many ways, including: direct costs, indirect costs, fixed costs, variable costs, and semi-variable costs. Examples include wages, salaries, rent, raw materials, advertising and taxes. Finn is concerned about cost control at AFA.

Strategic plans (74)

A strategic plan is a firm's proposal of its business strategy, outlining its strategic direction and including the necessary resources to pursue the strategy. As a management tool, strategic planning starts with strategic analysis (an examination of its current position in the market), followed by strategic choice (the possible options through which the firm can pursue its strategy) and ending in strategic implementation (deciding how to get to where the firm wants to be). Sam focuses on strategic planning to ensure AFA remains true to its mission, rather than getting involved in the daily running of the business.

Mission (74, 96, 105)

The mission of a business is a formal statement or declaration of its overall goal and purpose. The mission forms the foundation for setting the aims and objectives of the organization. Sam wants to ensure AFA's growth remains true to the firm's mission, although Finn has his reservations and concerns about this materialising.

Risk averse (75)

This refers to someone who is reluctant to take business risks. Risk-averse people prefer decisions and actions that carry lower risks, especially when exposed to situations of uncertainty. Finn is methodical (systematic / thorough) and risk averse.

Tactics (76)

Tactics are the immediate actions that help a business to achieve its strategic goals. They are the actions taken to support business strategy. They are used to take advantage of business opportunities and to manage business risks. Finn focuses on tactics and daily operations at AFA.

Key Terms

Case Study: As Fair As (AFA)

For use in November 2018



Key terms in *italics* apply to *HL* students only

Day-to-day operations (76)

This refers to the activities that a business and its workforce engage in on a daily basis in order to meet its organizational goals, such as the generation of profit for its owners. As the COO of AFA, Finn focuses on the daily operations of the business.

Administration (77)

This refers to the process of running an organization or business. It includes the management of business operations and a leadership role within the organization. Finn is in charge of the administration at AFA.

Industry (79)

An industry consists of businesses involved in a similar business activity so are in direct competition as they cater for the same client base. AFA operates in the retail industry selling fair trade products.

Bureaucracy (bureaucratic) (80)

Bureaucracy is an organizational system with prescribed rules, administrative procedures, and policies that have to be followed in order to complete a task. It may be seen as rational and orderly, but with excessive paperwork and slow decision-making. Finn had previously worked in a bureaucratic industry.

Centralized (80)

A centralized organizational structure exists when all decision-making power is held by head office or by a select few senior managers within the organization. The centralized approach means that workers are not empowered but instead follow strict company practices and policies. Finn had previously worked in an industry that was highly bureaucratic and centralized.

Narrow spans of control (80)

The span of control describes the number of employees that report to each line manager. A narrow span of control means that each manager is in charge of a relatively few number of staff. The span of control is wide if a manager is in charge of many staff.

Top-down communication (80)

This choice of organizational structure sees the transfer of information from the highest level in the organizational hierarchy passed down to the lowest level. It is found in a centralized and organization where senior management make all decisions. Finn had previously worked in a bureaucratic organization with top-down communication.

Leadership style (82)

Leadership style refers to the way in which managers and leaders choose to behave in relation to how they organize, communicate and control their employees. Sam is concerned about Finn's leadership style as there are rumours that the managers of the four stores have little input decision-making power.

Key Terms

Case Study: As Fair As (AFA)

For use in November 2018



Key terms in *italics* apply to *HL* students only

Decision making (84)

This is the management function of enacting or processing important choices and judgements in business operations. Rational decision-making is an integral aspect of business management.

Charities (86)

A charity is a non-profit organization set up to provide help and raise money or aid for those in need. Sam spends an increasing amount of time talking with NGOs and charities about ways that AFA can help them.

Change (changes) (90)

Change refers to the modification or transformation in the way business is conducted as a response to internal factors or external influences. Change arises when factors that influence the operations of an organization do not stay the same. Finn argues that change is needed at AFA needs to change as the current management system was unable to cope with the firm's growth.

Cooperative (92)

A cooperative is a private sector business owned and controlled by its members for their mutual benefits. These are people who actually buy and use the firm's goods or services. Any profits are shared and redistributed to its members. Each member contributes the same amount of capital. Each member also has one vote, rather than the vote being based on the amount of capital contributed by the owner).

Associates (93)

An associate is a member of a cooperative. Associates are joint owners of democratically-controlled business enterprises, where each member has one vote in the organization. Managers at AFA would become associates if Sam converts the business to a cooperative.

Salary (93)

A salary is a form of financial payment made to an employee, based on his/her job as specified in a contract of employment. It is a fixed amount paid on a periodic basis, usually per month, but is not dependent on the number of hours worked. Hence, salaries represent a fixed cost to an organization. Sam is considering changing his managers to associates if AFA becomes a cooperative, thereby eliminating the need to pay them salaries.

Positioning (97)

Positioning is an analytical tool based on the knowledge and perceptions of customers about a particular organization, its products and/or its brands. The typical measure ranks the price and quality of different products, brands or firms according to the perceptions of customers. Finn feels strongly about the mission and corporate social responsibility aspects of AFA being central to the firm's market positioning.

Key Terms

Case Study: As Fair As (AFA)

For use in November 2018



Key terms in *italics* apply to *HL* students only

Perception (97)

Perception refers to the views and opinions of customers regarding a particular brand or business. A **perception map** is a visual aid used to show customers' perceptions about the product or brand in relation to others in the market, against variables such as price and quality. Finn feels that the mission and CSR aspects of *AFA* are core to customer perceptions of the firm.

Strategic direction (111-112)

Strategic direction refers to the course of action that leads to the achievement of the long terms goals, vision and mission of a business organization. Finn and Sam are in disagreement about the strategic direction of *AFA*.

Additional key terms from the case study:

There are several additional words/phrases that students might find useful, such as:

International school (1)

An international school is an educational establishment that promotes an international education, rather than the national curriculum of the country in which it is based. The curriculum and educational pedagogy is based on an international framework, such as that of the International Baccalaureate (IB) or Cambridge International Examinations (CAIE).

Fair trade movement (15)

Fair trade refers to the social movement for achieving better trading conditions for producers in less economically developed countries. It is consistent with the concept of the triple bottom line (ecological, social and economic sustainability), striving to eradicate poverty rather than putting profits before people and the planet. Find out more about the Fair Trade movement here: www.fairtrade.net

Pop-up businesses (28)

This refers to the temporary use of empty or under-used physical retail space to amplify sales, raise brand exposure and cash in on peak seasonal sales. Pop-up businesses can create a positive, long term impact with potential.

Foot traffic (36)

This is a measure of the number of customers that walk into a retail store or the number of potential customers that walk past the business. High foot traffic is important for retailers such as *AFA* as it improves their sales revenue and profits. Commuters and young travellers at a local train station generate high foot traffic for *AFA*.

Key Terms

Case Study: As Fair As (AFA)

For use in November 2018



Key terms in *italics* apply to *HL* students only

Commuters (36)

This term describes people who travel enough distance to exceed the boundary of their residential community on a regular or repeated basis. The main purpose is for work (employment) purposes, although commuters can also include students travelling to and from their place of study. Commuters provide *AFA* with high foot traffic for its pop-up stall near a local train station.

Brick-and-mortar (54)

This refers to businesses that have a physical presence, so customers have actually visit the store to make purchases. This contrasts with e-commerce, which is trading virtually or online. *AFA* has four physical, tangible retail outlets, selling fair trade products such as stationery, coffee and clothes.

Mystery shopper (secret shopper) (100)

The use of a mystery shopper is a tool used to measure the quality of service or to gather specific market research information about a firm's products and services. The mystery shopper (researcher) makes unannounced visits to the business, and provides feedback at a later date. Finn hired a mystery shopper to visit two *AFA* stores.



For use in November 2018

Sam Temperton

- Attended a large international school, an IB school, in the capital city of a developing country
- Demonstrated several qualities of an entrepreneur (determination, resilience and creativity) from the age of 16
- Set up his first business at the age of 16 – buying chocolate bars from a supermarket and reselling these with a profit margin to his classmates, just outside of the school premises, and undercutting the price of the school shop
- Studied IB business management; liked Daniel Pink's motivation theory and was inspired by the fair trade movement
- Was surprised to discover (through secondary research) that supermarkets were the only place where fair trade products were sold
- Completed the IB diploma in 2015
- Wanted to practice corporate social responsibility in his business operations
- Hopes his business will eventually operate on a global scale
- After leaving school, wanted to set up retail store to sell fair trade products, but lacked sufficient funds
- Created a marketing plan for the local bank manager
- Despite set-back from initial plans to set up retail store, discovered the idea of pop-up stalls which could be used to sell his fair trade chocolate
- Used idea of pop-up business (not a retail store) and improved marketing and business plans to raise enough finance to open his first pop-up stall
- Forgot to include information about accounting and finance in his application for a pop-up business license; and his business goals were not regarded as ethical; hence, the application was declined
- Subsequently hired Kim, an old school friend, to help with the reapplication for a license; Kim focused on the accounting and finance information; *As Fair As* was then registered
- Set up his first pop-up stall near a local train station, with high foot traffic from commuters and young travellers, helping AFA's sales revenue and profits to grow
- Decided to expand the range of fair trade products at AFA and opened three additional pop-up stalls in semi-permanent locations
- Hired a new manager for each of the four pop-up stalls
- Found new suppliers of fair trade products, including coffee, clothes and stationery; many of Sam's fair trade products could be sourced locally
- Worked with two types of suppliers: wholesalers and local producers
- Decided to build on the success of his pop-up business by creating an e-commerce B2C website to sell fair trade products
- By 2017, four traditional retail stores had been open, selling a much larger range of fair trade products
- Decided to locate the four pop-up stalls at temporary venues, such as festivals and concerts, rather than at semi-permanent locations, such as the train station
- Made most of the growth decisions, with only limited consultation with Kim
- Promoted the four pop-up stall managers to managers of the new retail outlets



For use in November 2018

Sam Temperton (continued)...

- Recruited school leavers to replace the four managers at the pop-up stalls
- Decided that some form of restructuring of *AFA* was needed due to growing complexities
- Hired Finn as his second business partner
- Retains overall control of *AFA*
- Found *AFA* increasingly difficult to manage as it continued to grow
- Accepted Finn's decision to raise prices (due to diseconomies of scale and the decline in both GPM and NPM)
- Reminded Finn about *AFA*'s vision (to create opportunities for both internal and external stakeholders), i.e. to be cautious about further increases in prices
- Concerned that new pricing strategies (if costs are not be kept under control) could undermine *AFA*'s position in the retail market
- Does not generally participate in the day-to-day running of *AFA*
- Focuses on developing strategic plans and ensuring that *AFA* stays true to its mission
- Also focuses on strengthening the relationship between *AFA* and its stakeholders
- Generally pleased that Finn runs the administration of *AFA*
- Gets bored easily and is always restless
- Constantly looking for new ways to grow *AFA*
- Became concerned about Finn's leadership style
- Heard rumours that the four store managers were complaining to each other that they have little input in decision-making
- Rarely visits any of his four stores
- Leaves Finn to manage *AFA* on his own
- Spends an increasing amount of time visiting countries to source new suppliers of fair trade goods
- Also spends a lot of time speaking to NGOs and charities about ways that *AFA* can help them
- Wondered whether he should convert *AFA* to a cooperative, thereby making the manager associate members who would no longer be paid salaries
- Feel that changing *AFA* to a cooperative would align the business with the ideas of Daniel Pink
- Emphasized that Pink's theory should be extended to the managers of the four stores and to Kim
- Did not know that Finn had hired a mystery (secret) shopper to visit two of the retail stores
- Disappointed with what the mystery shopper reported
- Was angry at Finn's deception (about the use of a mystery shopper)
- Disagrees with Finn about the current situation and strategic direction of *AFA*.



For use in November 2018

Finn

- A close friend of Sam's
- Previously worked in an industry that was highly bureaucratic and centralized, with narrow spans of control and top-down communication
- Recruited as the Chief Operations Officer (COO) of AFA
- Focuses on financial details, logistics, tactics and day-to-day operations
- Responsibilities include supervising the four managers of the new retail outlets
- In charge of AFA's e-commerce website
- Is methodical and risk averse
- Increased prices at AFA due to diseconomies of scale and the fall in both GPM and NPM
- Suggested to Sam that new pricing strategies would be needed if AFA's costs were not kept under control
- Enjoys the challenges of managing systems
- Argued that a further restructuring was inevitable due to the continued growth of the four retail stores and the B2C website
- Called an urgent meeting with Sam to discuss organizational issues due to increasing costs and management unhappiness
- At the urgent meeting with Sam, argued that changes were needed despite AFA working well as a business concept
- Feels that the current management system is unable to cope with the growth of AFA
- Did not like this idea of Daniel Pink's theory being extended to Kim and the four store managers; so felt that he was not being listened to by Sam
- Feared that Sam's ideas for change would jeopardise the mission and corporate social responsibility aspects of AFA
- Regards the mission and CSR traits of AFA as essential aspects of the positioning (perception) of the business
- Revealed to Sam that he had hired a mystery (secret) shopper to visit two of the retail stores
- Was appalled at what the mystery shopper had revealed in her report, and wondered whether the two stores were devaluing the vision and mission of AFA as a fair trade retailer
- Argued that his decision to use a mystery shopper exposed the true nature of some of AFA's problems
- Disagrees with Sam about the current situation and strategic direction of AFA.



For use in November 2018

Kim

- An old school friend of Sam's
- Hired by Sam to help with the reapplication for a pop-up business license; focusing on the accounting and finance aspects of the business
- Helped Sam to get his business (*As Fair As*) registered
- Only limited involvement in strategic decision making as Sam made most of the growth decisions himself
- Promoted to Chief Financial Officer (CFO) of AFA
- Told by Sam that Pink's theory should be extended to her and the four store managers.

Local bank manager

- Offered young entrepreneurs, such as Sam, the chance to seek business finance and advice
- Was impressed with Sam's enthusiasm (to set up a retail store to sell fair trade products)
- Was concerned about some elements of Sam's marketing plan
- Was worried about Sam's poor understanding of accounting and finance, having felt that he did not know the difference between cash and profit
- Also concerned that selling only chocolate would not be enough to sustain Sam's business.

Suppliers

- Many fair trade products, such as coffee, clothes and stationery, are sourced locally
- Were initially unwilling to supply AFA as their orders and re-order quantities were very small
- Understood Sam's purpose, so were more willing to supply AFA as the business grew
- The wholesalers import fair trade products from around the world
- The local producers meet fair trade standards.

Mystery shopper

- Hired by Finn
- Visited two stores, at their busiest times
- Reported the following to Finn:
 - both stores were poorly organized
 - staff were unhelpful
 - staff failed to regularly mention the importance of fair trade.



Week 1 Quiz

Review the case study and then answer these questions (without referring to the case study).

1. What is Sam's surname?
2. What pricing strategy did Sam use to sell the chocolate bars to his classmates?
3. In which year did Sam set up his first business at school? *Hint*: he was aged 16 then.
4. Did Sam have ambitions to expand his business globally?
5. What was the concern from the local bank manager about Sam selling only fair trade chocolate?
6. Was the location of Sam's first stall in a busy location?
7. After the success of his fourth pop-up stall, how did Sam expand his business further?
8. What examples of economies of scale are provided in the case study?
9. Why was Sam concerned about Finn's leadership style?
10. Who believes that the current management system is unable to cope with the growth of AFA?



Week 1 Quiz (Answers)

Review the case study and then answer these questions (without referring to the case study).

1. What is Sam's surname? **Temperton**
2. What pricing strategy did Sam use to sell the chocolate bars to his classmates? **Mark-up (cost-plus)**
3. In which year did Sam set up his first business at school? *Hint: he was aged 16 then.* **2013 (he completed the DP in 2015)**
4. Did Sam have ambitions to expand his business globally? **Yes (line 19)**
5. What was the concern from the local bank manager about Sam selling only fair trade chocolate? **It might not be enough to sustain the business**
6. Was the location of Sam's first stall in a busy location? **Yes, with high foot traffic from commuters and young travellers**
7. After the success of his fourth pop-up stall, how did Sam expand his business further? **Created an e-commerce B2C website to sell his fair trade products**
8. What examples of economies of scale are provided in the case study? **Lower transport costs and greater bulk buying**
9. Why was Sam concerned about Finn's leadership style? **He had heard rumours that the 4 retail store managers had little input in decision making**
10. Who believes that the current management system is unable to cope with the growth of AFA? **Finn**



Week 2 Quiz

Review the case study and then answer these questions (without referring to the case study).

1. What type of school did Sam attend?
2. Who was Sam's target market when he sold chocolate bars at school?
3. After completing his IB diploma, what did Sam decide to do?
4. What did the local bank manager offer to young entrepreneurs?
5. What information did Sam forget to include in his application for a pop-up business licence?
6. Are AFA's products sourced locally?
7. Who is AFA's Chief Operations Officer?
8. Who worked in an industry that was highly bureaucratic and centralized?
9. What were the findings from the mystery shopper that Finn had hired?
10. Are AFA managers paid salaries?



Week 2 Quiz (Answers)

Review the case study and then answer these questions (without referring to the case study).

1. What type of school did Sam attend? **Large international school**
2. Who was Sam's target market when he sold chocolate bars at school? **His classmates (students at a large international school)**
3. After completing his IB diploma, what did Sam decide to do? **Turn his business into something more substantial (become a successful entrepreneur working on his own and to make a difference to the lives of stakeholders)**
4. What did the local bank manager offer to young entrepreneurs? **The chance to seek business finance and advice**
5. What information did Sam forget to include in his application for a pop-up business licence? **Information about accounting and finance**
6. Are AFA's products sourced locally? **Not all, but many are**
7. Who is AFA's Chief Operations Officer? **Finn**
8. Who worked in an industry that was highly bureaucratic and centralized? **Finn**
9. What were the findings from the mystery shopper that Finn had hired? **Poorly organized stores, unhelpful staff, and a failure of staff to regularly mention the importance of fair trade**
10. Are AFA managers paid salaries? **Yes (line 93)**



Week 3 Quiz

Review the case study and then answer these questions (without referring to the case study).

1. Where was the school that Sam attended located?
2. What do we know about the prices charged by the school shop that Sam attended?
3. What type of research did Sam use to find out about the fair trade movement in his country?
4. Which part of the IB business management syllabus did Sam seem to struggle with at school?
5. What is the registered name of Sam's business?
6. Do the wholesalers that trade with *AFA* import products from around the world?
7. What caused Finn to increase prices at *AFA*?
8. What caused Finn to call an urgent meeting with Sam?
9. Who disagreed about the current problems faced by *AFA* and strategic direction of *AFA*?
10. What is Finn's position at *AFA*?



Week 3 Quiz (Answers)

Review the case study and then answer these questions (without referring to the case study).

1. Where was the school that Sam attended located? [Capital city of a developing country](#)
2. What do we know about the prices charged by the school shop that Sam attended? [It charged high prices](#)
3. What type of research did Sam use to find out about the fair trade movement in his country? [Secondary market research](#)
4. Which part of the IB business management syllabus did Sam seem to struggle with at school? [Accounting and finance \(lines 23-24\)](#)
5. What is the registered name of Sam's business? [As Fair As \(AFA\)](#)
6. Do the wholesalers that trade with AFA import products from around the world? [Yes \(line 49\)](#)
7. What caused Finn to increase prices at AFA? [The eroding GPM and NPM](#)
8. What caused Finn to call an urgent meeting with Sam? [Discontent \(management unhappiness\) and rising costs at AFA](#)
9. Who disagreed about the current problems faced by AFA and strategic direction of AFA? [Finn and Sam](#)
10. What is Finn's position at AFA? [COO \(Chief Operations Officer\)](#)



Week 4 Quiz

Review the case study and then answer these questions (without referring to the case study).

1. What is known about the demographics of the students at the school Sam attended?
2. Was Sam's choice of pricing strategy to sell the chocolates to his classmates a popular decision?
3. Did Sam study Business Management at school?
4. What role would CSR have in Sam's business venture after he completed his IB diploma?
5. Despite the concerns of the local bank manager, what idea did Sam have to start his business?
6. Did Sam's original location decision work well?
7. After the success of his B2C website, how did Sam expand his business?
8. What is AFA's vision?
9. Does Sam visit the four retail outlets on a regular basis?
10. How many of AFA's retail outlets did the mystery shopper visit?



Week 4 Quiz (Answers)

Review the case study and then answer these questions (without referring to the case study).

1. What is known about the demographics of the students at the school Sam attended? *The students came from many different nationalities and cultures*
2. Was Sam's choice of pricing strategy to sell the chocolates to his classmates a popular decision? *Yes – the prices were below that charged by the school shop*
3. Did Sam study Business Management at school? *Yes (line 14)*
4. What role would CSR have in Sam's business venture after he completed his IB diploma? *Sam wanted to practice CSR in his business operations*
5. Despite the concerns of the local bank manager, what idea did Sam have to start his business? *Use a pop-up business model (he also improved his marketing and business plans)*
6. Did Sam's original location decision work well? *Yes (lines 38-39)*
7. After the success of his B2C website, how did Sam expand his business? *Opened 4 traditional brick-and-mortar retail outlets, selling a much larger range of fair trade products*
8. What is AFA's vision? *To create opportunities for both internal and external stakeholders*
9. Does Sam visit the four retail outlets on a regular basis? *No (line 84)*
10. How many of AFA's retail outlets did the mystery shopper visit? *Two*



Week 5 Quiz

Review the case study and then answer these questions (without referring to the case study).

1. What age was Sam when he demonstrated the skills and qualities of an entrepreneur?
2. How did Sam's classmates pay for the chocolate bars?
3. What curriculum did Sam complete at school?
4. Where did the secondary market research come from that enabled Sam to learn about the fair trade movement in his country?
5. What was the local bank manager concerned about Sam's marketing plan?
6. Following improvements made to his marketing and business plans, what was Sam able to do?
7. After the success of his B2C website, how did Sam expand his business?
8. Did Sam consult Kim about the growth decisions of *AFA*?
9. Why was Sam concerned about possible new pricing strategies at *AFA*?
10. Why did the urgent meeting between Sam and Finn broke up?



Week 5 Quiz (Answers)

Review the case study and then answer these questions (without referring to the case study).

1. What age was Sam when he demonstrated the skills and qualities of an entrepreneur? **16**
2. How did Sam's classmates pay for the chocolate bars? **Cash only**
3. What curriculum did Sam complete at school? **International Baccalaureate diploma**
4. Where did the secondary market research come from that enabled Sam to learn about the fair trade movement in his country? **NGOs**
5. What was the local bank manager concerned about Sam's marketing plan? **Some elements of the marketing plan, and Sam's poor understanding of accounting and finance; plus concerns that selling only chocolates was sustainable**
6. Following improvements made to his marketing and business plans, what was Sam able to do? **Raise sufficient finance to open his first pop-up stall**
7. How many additional pop-up stalls did Sam open? **Three**
8. Did Sam consult Kim about the growth decisions of AFA? **Not really, as Sam made most of the growth decisions himself**
9. Why was Sam concerned about possible new pricing strategies at AFA? **Changing pricing strategies could undermine AFA's position in the retail market (moving the firm away from its vision)**
10. Why did the urgent meeting between Sam and Finn broke up? **Sam accused Finn of being deceptive; they disagreed about the strategic direction of AFA**



Week 6 Quiz

Review the case study and then answer these questions (without referring to the case study).

1. State the entrepreneurial qualities that Sam displayed whilst at school.
2. Did the school that Sam attended allow students to trade goods for a profit?
3. After finishing school, Sam wanted to become a successful entrepreneur. What vision did he have for this?
4. What advantages do pop-up businesses provide?
5. Why did Sam's pop-up stall perform better than other pop-up businesses in the area?
6. What happened to the 4 pop-up stalls, following Sam's decision to set up 4 physical retail outlets?
7. Does Sam generally participate in the day-to-day running of *AFA*?
8. Why was Sam spending more time overseas?
9. How were the four pop-up stall managed?
10. Who is *AFA*'s Chief Financial Officer?



Week 6 Quiz (Answers)

Review the case study and then answer these questions (without referring to the case study).

1. State the entrepreneurial qualities that Sam displayed whilst at school. **Determination, resilience and creativity**
2. Did the school that Sam attended allow students to trade goods for a profit? **No, not on school premises**
3. After finishing school, Sam wanted to become a successful entrepreneur. What vision did he have for this? **To make a difference to the lives of stakeholders**
4. What advantages do pop-up businesses provide? **Flexible and agile, and can be established quickly**
5. Why did Sam's pop-up stall perform better than other pop-up businesses in the area? **He located near a busy train station; others were located in a less busy part of the station**
6. What happened to the 4 pop-up stalls, following Sam's decision to set up 4 physical retail outlets? **He used them at temporary venues, such as festivals and concerts (rather than at semi-permanent locations such as the train station)**
7. Does Sam generally participate in the day-to-day running of AFA? **No (line 73)**
8. Why was Sam spending more time overseas? **To source new suppliers of fair trade products, and to speak to NGOs and charities about ways that AFA could help them**
9. How were the four pop-up stall managed? **Each was run by a manager**
10. Who is AFA's Chief Financial Officer? **Kim**



Week 7 Quiz

Review the case study and then answer these questions (without referring to the case study).

1. When did Sam set up his first business?
2. Why did Sam sell his chocolate bars to his classmates just off the school premises?
3. What business idea did Sam have after he completed his IB diploma?
4. Which two financial concepts did the local bank manager think Sam was confused about?
5. Where was the first of Sam's pop-up stall located?
6. What is Kim's position at *AFA*?
7. Whose leadership style was Sam concerned about?
8. Who had hired a mystery shopper to visit two of *AFA*'s retail outlets?
9. When was Sam born?
10. What type of business ownership is Sam considering changing *AFA* to?



Week 7 Quiz (Answers)

Review the case study and then answer these questions (without referring to the case study).

1. When did Sam set up his first business? *Whilst at school, aged 16*
2. Why did Sam sell his chocolate bars to his classmates just off the school premises?
Students were not allowed to trade any items on campus for profit
3. What business idea did Sam have after he completed his IB diploma? *Create a shop fully dedicated to fair trade products*
4. Which two financial concepts did the local bank manager think Sam was confused about?
Cash flow and profit
5. Where was the first of Sam's pop-up stall located? *Near a local train station*
6. What is Kim's position at AFA? *CFO (Chief Financial Officer)*
7. Whose leadership style was Sam concerned about? *Finn's*
8. Who had hired a mystery shopper to visit two of AFA's retail outlets? *Finn*
9. When was Sam born? *He is 21 (having graduated from the IB diploma in 2015), so was born in 1997*
10. What type of business ownership is Sam considering changing AFA to? *Cooperative*



Week 8 Quiz

Review the case study and then answer these questions (without referring to the case study).

1. What was Sam's first business venture?
2. When did Sam complete his International Baccalaureate diploma?
3. When did Sam learn about the fair trade movement?
4. What was the first fair trade product that Sam wanted to sell at his retail store?
5. Did the bank manager think that Sam knew the difference between cash flow and profit?
6. After meeting with the local bank manager, which two plans did Sam make improvements to?
7. What gave Sam the idea of selling chocolate bars to his classmates?
8. After completing his IB diploma, where did Sam discover was the only place in his country that sold fair trade products?
9. Why did the local bank manager think that Sam's idea of selling chocolates was not a good choice?
10. Who manages *AFA* on a daily basis?



Week 8 Quiz (Answers)

Review the case study and then answer these questions (without referring to the case study).

1. What was Sam's first business venture? [Buying chocolates from supermarkets and reselling these \(with a mark-up\) to his classmates](#)
2. When did Sam complete his International Baccalaureate diploma? [2015](#)
3. When did Sam learn about the fair trade movement? [During his IB business management classes](#)
4. What was the first fair trade product that Sam wanted to sell at his retail store? [Chocolates](#)
5. Did the bank manager think that Sam knew the difference between cash flow and profit? [No](#)
6. After meeting with the local bank manager, which two plans did Sam make improvements to? [Marketing plan and business plan](#)
7. What gave Sam the idea of selling chocolate bars to his classmates? [The long queues at the school shop](#)
8. After completing his IB diploma, where did Sam discover was the only place in his country that sold fair trade products? [Supermarkets](#)
9. Why did the local bank manager think that Sam's idea of selling chocolates was not a good choice? [There were concerns that selling only chocolates would not be enough to sustain the business](#)
10. Who manages AFA on a daily basis? [Finn \(lines 84-85\)](#)



Week 9 Quiz

Review the case study and then answer these questions (without referring to the case study).

1. Why was Sam's pricing strategy for selling the chocolate bars at school a popular decision?
2. How old is Sam?
3. What problem did Sam have initially when wanting to set up a retail store to sell fair trade chocolate?
4. What was the local bank manager impressed with about Sam?
5. Why did Sam hire Kim?
6. What fair trade products does *AFA* sell?
7. Why did suppliers agree to trade with *AFA*?
8. Who is in charge of supervising the four managers of the new retail outlets and being in charge of the e-commerce website?
9. Who has overall control of *AFA*?
10. What traits do we know about Sam?



Week 9 Quiz (Answers)

Review the case study and then answer these questions (without referring to the case study).

1. Why was Sam's pricing strategy for selling the chocolate bars at school a popular decision?
His prices (with a mark-up) were well below the high prices charged by the school shop
2. How old is Sam? 21 (he completed the DP, aged 18, in 2015)
3. What problem did Sam have initially when wanting to set up a retail store to sell fair trade chocolate? Insufficient funds
4. What was the local bank manager impressed with about Sam? His enthusiasm
5. Why did Sam hire Kim? His application for a business pop-up stall was declined, and he needed help with accounting and finance
6. What fair trade products does AFA sell? Chocolates, coffee, clothes and stationery
7. Why did suppliers agree to trade with AFA? The business was growing, and they understood Sam's purpose
8. Who is in charge of supervising the four managers of the new retail outlets and being in charge of the e-commerce website? Finn
9. Who has overall control of AFA? Sam Temperton
10. What traits do we know about Sam? He gets bored easily, is always restless, and constantly looking for new ways to grow his business



Week 10 Quiz

Review the case study and then answer these questions (without referring to the case study).

1. Where did Sam sell his chocolate bars to his classmates?
2. Which motivation theory did Sam like in particular during his business management classes at school?
3. What did Sam produce for the local bank manager in an attempt to secure fund for his first retail store?
4. Why was Sam's application for a pop-up stall declined?
5. How does Sam know Kim?
6. At first, why did some suppliers not want to trade with *AFA*? Hint: think about the pop-up stalls.
7. State the two types of suppliers that Sam worked with.
8. What decision did Sam make that caused concerns from Kim?
9. Being in overall charge of *AFA*, what does Sam focus on?
10. What traits do we know about Finn? **He is risk averse but methodical (focusing on financial details, logistics, tactics and day-to-day operations)**



Week 10 Quiz (Answers)

Review the case study and then answer these questions (without referring to the case study).

1. Where did Sam sell his chocolate bars to his classmates? [Just off the school premises](#)
2. Which motivation theory did Sam like in particular during his business management classes at school? [Daniel Pink's motivation theory](#)
3. What did Sam produce for the local bank manager in an attempt to secure fund for his first retail store? [Marketing plan](#)
4. Why was Sam's application for a pop-up stall declined? [His business goals were not seen as ethical \(and he left out information about accounting and finance\)](#)
5. How does Sam know Kim? [They are old school friends](#)
6. At first, why did some suppliers not want to trade with AFA? Hint: think about the pop-up stalls. [The order and re-order quantities were too small](#)
7. State the two types of suppliers that Sam worked with. [Wholesalers and local producers \(that met fair trade standards\)](#)
8. What decision did Sam make that caused concerns from Kim? [Sam recruited school leavers to replace the managers of the pop-up stalls \(after having promoted the 4 managers from the pop-up stores to managers of the retail outlets\)](#)
9. Being in overall charge of AFA, what does Sam focus on? [Strategic planning, ensuring AFA remains true to its mission, and strengthening relationships with stakeholders](#)
10. What traits do we know about Finn? [He is risk averse but methodical \(focusing on financial details, logistics, tactics and day-to-day operations\)](#)

BUSINESS MANAGEMENT – PAPER 1 CASE STUDY PACK

True or False Quizzes

Case Study: As Fair As (AFA)

For use in November 2018



True or False – Quiz 1

	True / False
1. Sam attended a large international school.	
2. Sam undercut the prices of chocolate bars sold at supermarkets.	
3. Sam used primary market research to investigate the fair trade movement.	
4. The local bank manager was impressed with Sam's enthusiasm.	
5. Pop-up businesses were a growing trend.	
6. Kim is Sam's old school friend.	
7. Commuters and young travellers accounted for the high foot traffic at the nearby train station.	
8. As AFA expanded, Sam needed to find new suppliers of fair trade products.	
9. Finn was a close friend of Sam, before he joined AFA.	
10. AFA's gross and net profit margins are in decline.	

BUSINESS MANAGEMENT – PAPER 1 CASE STUDY PACK

True or False Quizzes

Case Study: As Fair As (AFA)

For use in November 2018



True or False – Quiz 1 (Answers)

	True / False
1. Sam attended a large international school.	T
2. Sam undercut the prices of chocolate bars sold at supermarkets. He bought them from a supermarket, and undercut the prices at the school shop	F
3. Sam used primary market research to investigate the fair trade movement. Secondary market research	F
4. The local bank manager was impressed with Sam's enthusiasm.	T
5. Pop-up businesses were a growing trend.	T
6. Kim is Sam's old school friend.	T
7. Commuters and young travellers accounted for the high foot traffic at the nearby train station.	T
8. As AFA expanded, Sam needed to find new suppliers of fair trade products.	T
9. Finn was a close friend of Sam, before he joined AFA.	T
10. AFA's gross and net profit margins are in decline.	T

BUSINESS MANAGEMENT – PAPER 1 CASE STUDY PACK

True or False Quizzes

Case Study: As Fair As (AFA)

For use in November 2018



True or False – Quiz 2

	True / False
1. Sam went to school in the capital city of a developed country.	
2. During his schooling, Sam sold chocolate bars just outside of the school premises.	
3. Sam completed the IB diploma in 2015.	
4. Sam discovered that fair trade products were only sold in supermarkets.	
5. The local bank manager felt that Sam did not know the difference between cash flow and profit.	
6. There was high foot traffic at the local train station where AFA had its first pop-up stall.	
7. AFA's fair trade products proved to be very popular with its customers.	
8. The wholesales that supply Sam imports products from many parts of the globe.	
9. Finn is AFA's chief operations officer.	
10. Finn is risk averse.	

BUSINESS MANAGEMENT – PAPER 1 CASE STUDY PACK

True or False Quizzes

Case Study: As Fair As (AFA)

For use in November 2018



True or False – Quiz 2 (Answers)

	True / False
1. Sam went to school in the capital city of a developed country. <i>Developing country</i>	F
2. During his schooling, Sam sold chocolate bars just outside of the school premises.	T
3. Sam completed the IB diploma in 2015.	T
4. Sam discovered that fair trade products were only sold in supermarkets.	T
5. The local bank manager felt that Sam did not know the difference between cash flow and profit.	T
6. There was high foot traffic at the local train station where <i>AFA</i> had its first pop-up stall.	T
7. <i>AFA</i> 's fair trade products proved to be very popular with its customers.	T
8. The wholesales that supply Sam imports products from many parts of the globe.	T
9. Finn is <i>AFA</i> 's chief operations officer.	T
10. Finn is risk averse.	T

BUSINESS MANAGEMENT – PAPER 1 CASE STUDY PACK

True or False Quizzes

Case Study: As Fair As (AFA)

For use in November 2018



True or False – Quiz 3

	True / False
1. Sam's school had students from many nationalities and cultures.	
2. Students at school, including Sam, were not permitted to trade for profit.	
3. Sam wants to practice corporate social responsibility in his business operations.	
4. Sam knows the difference between cash flow and profit.	
5. Sam set up his first <i>AFA</i> pop-up stall near a local train station.	
6. Following the success of his pop-up business, Sam decided to create an e-commerce B2C website.	
7. Kim is in charge of <i>AFA</i> 's e-commerce website.	
8. By 2017, <i>AFA</i> 's sales revenue had grown significantly.	
9. Sam is considering about changing <i>AFA</i> to a cooperative.	
10. Finn is left to manage <i>AFA</i> on his own.	

BUSINESS MANAGEMENT – PAPER 1 CASE STUDY PACK

True or False Quizzes

Case Study: As Fair As (AFA)

For use in November 2018



True or False – Quiz 3 (Answers)

	True / False
1. Sam's school had students from many nationalities and cultures.	T
2. Students at school, including Sam, were not permitted to trade for profit.	T
3. Sam wants to practice corporate social responsibility in his business operations.	T
4. Sam knows the difference between cash flow and profit.	F
5. Sam set up his first AFA pop-up stall near a local train station.	T
6. Following the success of his pop-up business, Sam decided to create an e-commerce B2C website.	T
7. Kim is in charge of AFA's e-commerce website. Finn is in charge	F
8. By 2017, AFA's sales revenue had grown significantly.	T
9. Sam is considering about changing AFA to a cooperative.	T
10. Finn is left to manage AFA on his own.	T

BUSINESS MANAGEMENT – PAPER 1 CASE STUDY PACK

True or False Quizzes

Case Study: As Fair As (AFA)

For use in November 2018



True or False – Quiz 4

	True / False
1. Sam was aged 18 when he demonstrated entrepreneurial talents.	
2. Sam completed the IB diploma in 2018.	
3. Sam hopes to eventually operate on a global level.	
4. Sam subsequently submitted an improved marketing and business plan to the local bank manager.	
5. The local train station where Sam set up his first pop-up business was located in a crowded area.	
6. Each of the four pop-up stalls was run by a manager.	
7. AFA's retail outlets offer a much larger range of fair trade products.	
8. Sam retains overall control of AFA.	
9. Kim feels strongly that changes are needed today at AFA.	
10. Finn and Sam disagree on the strategic direction of AFA.	

BUSINESS MANAGEMENT – PAPER 1 CASE STUDY PACK

True or False Quizzes

Case Study: As Fair As (AFA)

For use in November 2018



True or False – Quiz 4 (Answers)

	True / False
1. Sam was aged 18 when he demonstrated entrepreneurial talents. Aged 16	F
2. Sam completed the IB diploma in 2018. He completed this in 2015	F
3. Sam hopes to eventually operate on a global level.	T
4. Sam subsequently submitted an improved marketing and business plan to the local bank manager.	T
5. The local train station where Sam set up his first pop-up business was located in a crowded area.	T
6. Each of the four pop-up stalls was run by a manager.	T
7. AFA's retail outlets offer a much larger range of fair trade products.	T
8. Sam retains overall control of AFA.	T
9. Kim feels strongly that changes are needed today at AFA. Finn feels this way	F
10. Finn and Sam disagree on the strategic direction of AFA.	T

BUSINESS MANAGEMENT – PAPER 1 CASE STUDY PACK

True or False Quizzes

Case Study: As Fair As (AFA)

For use in November 2018



True or False – Quiz 5

	True / False
1. Sam set up his first business whilst still at school.	
2. Sam went onto university after he completed the IB diploma in 2015.	
3. Initially, Sam was unable to open a retail store due to the lack of funds.	
4. Pop-up businesses are flexible and agile, and can be set up quickly.	
5. AFA was registered after Kim was hired to work for Sam.	
6. Some suppliers of fair trade products were initially unwilling to sell to AFA.	
7. Some diseconomies of scale are affecting AFA's operations.	
8. There are rumours that the managers of the four retail stores are complaining to each other that they have little input in decision-making.	
9. Finn hired a mystery shopper without Sam's knowledge.	
10. Finn felt that all of the four stores were devaluing the vision and mission of AFA as a fair trade retailer.	

BUSINESS MANAGEMENT – PAPER 1 CASE STUDY PACK

True or False Quizzes

Case Study: As Fair As (AFA)

For use in November 2018



True or False – Quiz 5 (Answers)

	True / False
1. Sam set up his first business whilst still at school.	T
2. Sam went onto university after he completed the IB diploma in 2015.	F
3. Initially, Sam was unable to open a retail store due to the lack of funds.	T
4. Pop-up businesses are flexible and agile, and can be set up quickly.	T
5. AFA was registered after Kim was hired to work for Sam.	T
6. Some suppliers of fair trade products were initially unwilling to sell to AFA.	T
7. Some diseconomies of scale are affecting AFA's operations.	T
8. There are rumours that the managers of the four retail stores are complaining to each other that they have little input in decision-making.	T
9. Finn hired a mystery shopper without Sam's knowledge.	T
10. Finn felt that all of the four stores were devaluing the vision and mission of AFA as a fair trade retailer. <i>Only two (visited by the mystery shopper)</i>	F

BUSINESS MANAGEMENT – PAPER 1 CASE STUDY PACK

True or False Quizzes

Case Study: As Fair As (AFA)

For use in November 2018



True or False – Quiz 6

	True / False
1. Aged 16, Sam bought chocolate bars from wholesalers to sell to his classmates at school.	
2. Sam strives to make a difference to the lives of his stakeholders.	
3. The local bank manager was concerned about some elements of the plan and Sam's poor understanding of accounting and finance.	
4. The local bank manager felt Sam's business goals were not seen as ethical so declined his application.	
5. Sam's decision to locate the first AFA stall near the local train station was a good choice.	
6. Sam's B2C website offers AFA's fair trade products.	
7. Finn and Kim are Sam's business partners.	
8. Kim focuses on logistics, tactics and day-to-day operations.	
9. Sam spends time taking with NGOs and charities about the various ways that AFA can help them.	
10. Sam accepted Finn's decision to increase prices.	

BUSINESS MANAGEMENT – PAPER 1 CASE STUDY PACK

True or False Quizzes

Case Study: As Fair As (AFA)

For use in November 2018



True or False – Quiz 6 (Answers)

	True / False
1. Aged 16, Sam bought chocolate bars from wholesalers to sell to his classmates at school. He bought them from a supermarket	F
2. Sam strives to make a difference to the lives of his stakeholders.	T
3. The local bank manager was concerned about some elements of the plan and Sam's poor understanding of accounting and finance.	T
4. The local bank manager felt Sam's business goals were not seen as ethical so declined his application.	T
5. Sam's decision to locate the first AFA stall near the local train station was a good choice.	T
6. Sam's B2C website offers AFA's fair trade products.	T
7. Finn and Kim are Sam's business partners. Finn was Sam's second business partner (line 61)	T
8. Kim focuses on logistics, tactics and day-to-day operations. Finn does	F
9. Sam spends time taking with NGOs and charities about the various ways that AFA can help them.	T
10. Sam accepted Finn's decision to increase prices.	T

BUSINESS MANAGEMENT – PAPER 1 CASE STUDY PACK

True or False Quizzes

Case Study: As Fair As (AFA)

For use in November 2018



True or False – Quiz 7

	True / False
1. Sam charged a large mark-up when selling his chocolate bars at school.	
2. Sam was particular fond of Daniel Pink's motivation theory.	
3. The local bank manager was offering young entrepreneurs the chance to seek business finance and advice.	
4. The local bank manager felt that Sam selling only fair trade chocolate would not be enough to sustain the business.	
5. Sam hastily prepared his first application for a pop-up business licence.	
6. There were no other pop-up stores located near the local train station.	
7. AFA's order and reorder quantities were initially very small.	
8. Sam uses wholesalers as a channel of distribution.	
9. Sam promoted the four pop-up stall managers to managers of the new retail outlets.	
10. Finn has reduced the prices at AFA.	

BUSINESS MANAGEMENT – PAPER 1 CASE STUDY PACK

True or False Quizzes

Case Study: As Fair As (AFA)

For use in November 2018



True or False – Quiz 7 (Answers)

	True / False
1. Sam charged a large mark-up when selling his chocolate bars at school. <i>Low mark-up</i>	F
2. Sam was particular fond of Daniel Pink's motivation theory.	T
3. The local bank manager was offering young entrepreneurs the chance to seek business finance and advice.	T
4. The local bank manager felt that Sam selling only fair trade chocolate would not be enough to sustain the business.	T
5. Sam hastily prepared his first application for a pop-up business licence.	T
6. There were no other pop-up stores located near the local train station. <i>Other pop-up stalls were located in less busy parts of the train station</i>	F
7. AFA's order and reorder quantities were initially very small.	T
8. Sam uses wholesalers as a channel of distribution.	T
9. Sam promoted the four pop-up stall managers to managers of the new retail outlets.	T
10. Finn has reduced the prices at AFA. <i>He has increased prices</i>	F

BUSINESS MANAGEMENT – PAPER 1 CASE STUDY PACK

True or False Quizzes

Case Study: As Fair As (AFA)

For use in November 2018



True or False – Quiz 8

	True / False
1. Sam does not generally participate in the day-to-day running of AFA.	
2. Sam recruited school leavers to replace the four managers at the pop-up stalls.	
3. By 2017, Sam had opened four traditional brick-and-mortar retail outlets.	
4. Most of AFA's fair trade products are from overseas suppliers.	
5. With increased sales and profit, Sam decided to expand the range of fair trade products.	
6. Pop-up businesses are not easy to establish quickly.	
7. Kim was hired to help prepare a second application to the local bank manager, and to help with AFA's accounts and finances.	
8. Sam created a cash flow forecast which he presented to the local bank manager.	
9. The cost-plus pricing strategy Sam used at school was very popular.	
10. Sam's business is dedicated to selling a range of fair trade products.	

BUSINESS MANAGEMENT – PAPER 1 CASE STUDY PACK

True or False Quizzes

Case Study: As Fair As (AFA)

For use in November 2018



True or False – Quiz 8 (Answers)

	True / False
1. Sam does not generally participate in the day-to-day running of AFA.	T
2. Sam recruited school leavers to replace the four managers at the pop-up stalls.	T
3. By 2017, Sam had opened four traditional brick-and-mortar retail outlets.	T
4. Most of AFA's fair trade products are from overseas suppliers. <i>Many are sourced locally</i>	F
5. With increased sales and profit, Sam decided to expand the range of fair trade products.	T
6. Pop-up businesses are not easy to establish quickly.	F
7. Kim was hired to help prepare a second application to the local bank manager, and to help with AFA's accounts and finances.	T
8. Sam created a cash flow forecast which he presented to the local bank manager. <i>He created a marketing plan</i>	F
9. The cost-plus pricing strategy Sam used at school was very popular.	T
10. Sam's business is dedicated to selling a range of fair trade products.	T

BUSINESS MANAGEMENT – PAPER 1 CASE STUDY PACK

True or False Quizzes

Case Study: As Fair As (AFA)

For use in November 2018



True or False – Quiz 9

	True / False
1. Sam only sold his chocolate bars to classmates who paid by cash.	
2. The fair trade movement inspired Sam.	
3. Sam had forgotten to include important accounting and finance information in his initial business plan to the local bank manager.	
4. With increased sales and profit, Sam open three additional pop-up stalls.	
5. Suppliers became more willing to supply AFA once they knew about Sam's purpose.	
6. Sam now uses the pop-up stalls at semi-permanent locations, such as the train station.	
7. Finn used to work in flexible working environments.	
8. Kim is the chief operations officer (COO).	
9. Sam is spending a large amount of time travelling overseas for work-related matters.	
10. AFA benefits from lower transport costs and greater bulk buying.	

BUSINESS MANAGEMENT – PAPER 1 CASE STUDY PACK

True or False Quizzes

Case Study: As Fair As (AFA)

For use in November 2018



True or False – Quiz 9 (Answers)

	True / False
1. Sam only sold his chocolate bars to classmates who paid by cash.	T
2. The fair trade movement inspired Sam.	T
3. Sam had forgotten to include important accounting and finance information in his initial business plan to the local bank manager.	T
4. With increased sales and profit, Sam open three additional pop-up stalls.	T
5. Suppliers became more willing to supply AFA once they knew about Sam's purpose.	T
6. Sam now uses the pop-up stalls at semi-permanent locations, such as the train station. <i>Located at temporary venues, such as festivals and concerts.</i>	F
7. Finn used to work in flexible working environments. <i>He worked in an industry that was highly bureaucratic and centralized</i>	F
8. Kim is the chief operations officer (COO). <i>Kim is the CFO, not COO</i>	F
9. Sam is spending a large amount of time travelling overseas for work-related matters.	T
10. AFA benefits from lower transport costs and greater bulk buying.	T

BUSINESS MANAGEMENT – PAPER 1 CASE STUDY PACK

True or False Quizzes

Case Study: As Fair As (AFA)

For use in November 2018



True or False – Quiz 10

	True / False
1. Sam found out about the fair trade movement during his IB business management classes.	
2. Sam opened his first pop-up stalls to sell fair trade coffee.	
3. The location of the first pop-up stall creates logistical difficulties.	
4. Sam works with local suppliers that meet fair trade standards.	
5. Sam consults with Kim about growth options for the business.	
6. Finn is in charge of supervising the four managers of the new retail outlets.	
7. Sam gets bored easily and is always restless.	
8. Sam regularly visits his four retail stores.	
9. Many of AFA's fair trade products are sourced locally.	
10. Finn increased the prices at AFA without Sam's knowledge.	

BUSINESS MANAGEMENT – PAPER 1 CASE STUDY PACK

True or False Quizzes

Case Study: As Fair As (AFA)

For use in November 2018



True or False – Quiz 10 (Answers)

	True / False
11. Sam found out about the fair trade movement during his IB business management classes.	T
12. Sam opened his first pop-up stalls to sell fair trade coffee. <i>Chocolate</i>	F
13. The location of the first pop-up stall creates logistical difficulties.	T
14. Sam works with local suppliers that meet fair trade standards.	T
15. Sam consults with Kim about growth options for the business. <i>He makes most of the decisions alone</i>	F
16. Finn is in charge of supervising the four managers of the new retail outlets.	T
17. Sam gets bored easily and is always restless.	T
18. Sam regularly visits his four retail stores. <i>He rarely does</i>	F
19. Many of AFA's fair trade products are sourced locally.	T
20. Finn increased the prices at AFA without Sam's knowledge. <i>Sam accepted this decision</i>	F



Wordle Quiz 1 – Answers



1. An external stakeholder group that sell goods and services to other businesses.
2. Theorist who spoke about purpose, autonomy and mastery as driving forces of motivation.
3. Concept of using the planet's resources in such a way that future generations are not deprived of access to what the current and previous generations have enjoyed.
4. A person who bears the financial risks of starting and managing a new business or a commercial venture.
5. The expansion of a firm due to an increase in its size and/or the size of the industry.
6. The moral goals of an organization.
7. Document that outlines an organization's marketing objectives and the strategies.
8. Name of Sam Temperton's business.
9. Amount of stock (inventory) placed (bought) by a firm.



Wordle Quiz 1 – Answers



1. An external stakeholder group that sell goods and services to other businesses. [Suppliers](#)
2. Theorist who spoke about purpose, autonomy and mastery as driving forces of motivation. [Daniel Pink](#)
3. Concept of using the planet's resources in such a way that future generations are not deprived of access to what the current and previous generations have enjoyed. [Sustainability](#)
4. A person who bears the financial risks of starting and managing a new business or a commercial venture. [Entrepreneur](#)
5. The expansion of a firm due to an increase in its size and/or the size of the industry. [Growth](#)
6. The moral goals of an organization. [Ethical objectives](#)
7. Document that outlines an organization's marketing objectives and the strategies. [Marketing plan](#)
8. Name of Sam Temperton's business. [As Far As](#)
9. Amount of stock (inventory) placed (bought) by a firm. [Re-order quantity](#)



Wordle Quiz 2

Business plan

Cost-plus

Salary

Stakeholders

Narrow spans of control

Mystery shopper

Wholesalers

Charities

Cooperative

1. Occurs when managers are in charge of a relatively few number of staff.
2. Firms that buy large quantities of goods from a manufacturer, and break the bulk into smaller units for resale.
3. Pricing strategy that adds a mark-up, ensuring the firm earns a profit margin.
4. A form of fixed financial payment, paid monthly, based on an employee's contract of employment.
5. A tool used to measure the quality of customer service and gather specific market research information about a firm's products and services.
6. Non-profit organization set up to provide help and raise money or aid for those in need.
7. The individuals and/or organizations that have a direct interest in the operations and affairs of the business in question.
8. A written document detailing how a firm sets out to achieve its objectives and the strategies to achieve these goals.
9. Private sector business owned and controlled by its own members.



Wordle Quiz 2 – Answers

Business plan Cost-plus
Salary Stakeholders
Narrow spans of control
Mystery shopper Wholesalers
Charities Cooperative

1. Occurs when managers are in charge of a relatively few number of staff. [Narrow spans of control](#)
2. Firms that buy large quantities of goods from a manufacturer, and break the bulk into smaller units for resale. [Wholesalers](#)
3. Pricing strategy that adds a mark-up, ensuring the firm earns a profit margin. [Cost-plus](#)
4. A form of fixed financial payment, paid monthly, based on an employee's contract of employment. [Salary](#)
5. A tool used to measure the quality of customer service and gather specific market research information about a firm's products and services. [Mystery shopper](#)
6. Non-profit organization set up to provide help and raise money or aid for those in need. [Charities](#)
7. The individuals and/or organizations that have a direct interest in the operations and affairs of the business in question. [Stakeholders](#)
8. A written document detailing how a firm sets out to achieve its objectives and the strategies to achieve these goals. [Business plan](#)
9. Private sector business owned and controlled by its own members. [Cooperative](#)



Wordle Quiz 3

Strategic direction
Marketing plan *Manager*
Internal stakeholder
Leadership style *Mission*
Risk averse *Gross profit margin*
Top-down communication

1. A formal statement or declaration of its overall goal and purpose.
2. Refers to someone who is reluctant to take business risks.
3. Individuals or businesses that are part of the organization, so have a direct interest in its operations and affairs.
4. The way in which managers and leaders choose to behave in relation to how they organize, communicate and control their employees.
5. The course of action that leads to the achievement of the long terms goals, vision and mission of a business organization.
6. A profitability ratio that measures the proportion of gross profit generated from the sales revenue of a business.
7. Document that outlines an organization's marketing objectives and the strategies.
8. Organizational structure that sees the transfer of information from the highest level in the organizational hierarchy to the lowest level.
9. Person responsible for the day-to-day running of a business or a department within the organization.



Wordle Quiz 3 – Answers

Strategic direction
Marketing plan Manager
Internal stakeholder
Leadership style Mission
Risk averse Gross profit margin
Top-down communication

1. A formal statement or declaration of its overall goal and purpose. [Mission](#)
2. Refers to someone who is reluctant to take business risks. [Risk averse](#)
3. Individuals or businesses that are part of the organization, so have a direct interest in its operations and affairs. [Internal stakeholders](#)
4. The way in which managers and leaders choose to behave in relation to how they organize, communicate and control their employees. [Leadership style](#)
5. The course of action that leads to the achievement of the long terms goals, vision and mission of a business organization. [Strategic direction](#)
6. A profitability ratio that measures the proportion of gross profit generated from the sales revenue of a business. [Gross profit margin](#)
7. Document that outlines an organization's marketing objectives and the strategies. [Marketing plan](#)
8. Organizational structure that sees the transfer of information from the highest level in the organizational hierarchy to the lowest level. [Top-down communication](#)
9. Person responsible for the day-to-day running of a business or a department within the organization. [Manager](#)



Wordle Quiz 4

Recruitment
Salary Narrow spans of control
Charities
Chief operations officer
Sales revenue
Day to day operations
Retail outlets
External stakeholders

1. The commercial outlets that sell products directly to consumers.
2. Non-profit organizations set up to provide help and raise money or aid for those in need.
3. A form of financial payment made to an employee, based on his/her job as specified in a contract of employment.
4. The activities that a business and its workforce engage in on a daily basis in order to meet its organizational goals.
5. The total amount of money earned from the sales of a good or service over a period of time.
6. Individuals or other organizations that are not part of the business but have a direct interest in its operations.
7. The process of hiring suitable workers.
8. Organizational structure whereby each manager is in charge of a relatively few number of staff.
9. Senior executive with overall responsibility for the daily operations of the organization.



Wordle Quiz 4 – Answers

Recruitment
Salary Narrow spans of control
Charities
Chief operations officer
Sales revenue
Day to day operations
Retail outlets
External stakeholders

1. The commercial outlets that sell products directly to consumers. [Retail outlets](#)
2. Non-profit organizations set up to provide help and raise money or aid for those in need. [Charities](#)
3. A form of financial payment made to an employee, based on his/her job as specified in a contract of employment. [Salary](#)
4. The activities that a business and its workforce engage in on a daily basis in order to meet its organizational goals. [Day to day operations](#)
5. The total amount of money earned from the sales of a good or service over a period of time. [Sales revenue](#)
6. Individuals or other organizations that are not part of the business but have a direct interest in its operations. [External stakeholders](#)
7. The process of hiring suitable workers. [Recruitment](#)
8. Organizational structure whereby each manager is in charge of a relatively few number of staff. [Narrow spans of control](#)
9. Senior executive with overall responsibility for the daily operations of the organization. [Re-order quantity](#)



Wordle Quiz 5

Net profit margin
Pop-up businesses Location
Logistics Motivation theory
Target market
Secondary market research
Corporate social responsibility
Non-governmental organization

1. The geographical position or site of an organization.
2. The group of customers that *AFA* focuses on selling its products to.
3. The conscience of an organization, with consideration of its actions on different stakeholder groups and the natural environment.
4. The temporary use of empty or under-used physical retail space to amplify sales, raise brand exposure and cash in on peak seasonal sales.
5. A profitability ratio that measures the proportion of net profit generated from the sales revenue of a business.
6. The management of the flow of goods from the origin to the final destination (reaching the consumer).
7. A type of non-profit social enterprise that operates in the private sector but does not primarily aim to make a profit.
8. Academic study of the ideas and principles of what inspires and persuades people to do certain things.
9. Information collected from second-hand sources (which already exist), all of which are accessible by the public.



Wordle Quiz 5 – Answers

Net profit margin
Pop-up businesses Location
Logistics Motivation theory
Target market
Secondary market research
Corporate social responsibility
Non-governmental organization

1. The geographical position or site of an organization. [Location](#)
2. The group of customers that AFA focuses on selling its products to. [Target market](#)
3. The conscience of an organization, with consideration of its actions on different stakeholder groups and the natural environment. [Corporate social responsibility](#)
4. The temporary use of empty or under-used physical retail space to amplify sales, raise brand exposure and cash in on peak seasonal sales. [Pop-up businesses](#)
5. A profitability ratio that measures the proportion of net profit generated from the sales revenue of a business. [Net profit margin](#)
6. The management of the flow of goods from the origin to the final destination (reaching the consumer). [Logistics](#)
7. A type of non-profit social enterprise that operates in the private sector but does not primarily aim to make a profit. [Non-governmental organization](#)
8. Academic study of the ideas and principles of what inspires and persuades people to do certain things. [Motivation](#)
9. Information collected from second-hand sources (which already exist), all of which are accessible by the public. [Secondary market research](#)



For use in November 201

SWOT Analysis for AFA

SWOT analysis provides a framework for decision makers to consider factors in both the internal and the external business environment that affect business operations. The internal factors are classified as **strengths** or **weaknesses** within the organization. The external factors are classified as **opportunities** or **threats**.

Strengths

- AFA is headed by Sam Temperton, who has demonstrated Sam demonstrated qualities of an entrepreneur since a young age (line 2 – 3)
- Sam is very experienced as an entrepreneur, having run his own business since the age of 16 (lines 2 – 4)
- The business has a very clear vision (line 14), which gives purpose and direction to AFA and its various stakeholder groups
- Sam is undeterred by setbacks (line 27), so is determined and resilient (line 3) and enthusiastic (line 23), thus improving the chances of success at AFA
- Kim and Sam are old school friends, which can strengthen working relationships at AFA
- Fair trade products are proving to be very popular with AFA's customers (lines 42 – 43)
- AFA's *fair trade* product portfolio has expanded to include coffee, clothing and stationery (line 43), thereby attracting more customers
- AFA's suppliers understand Sam's purpose (lines 46 – 47), so are more willing to supply their fair trade products from many parts of the globe (line 49)
- AFA has an online presence with its e-commerce business to consumer (B2C) website (lines 51 – 52), so can sell its fair trade products to a wider range of customers\
- AFA is a great success (line 53) - sales revenue has grown significantly and it now has four retail stores selling a much larger range of fair trade products (lines 53 – 54)
- Additional revenue stream from its pop-up stalls in temporary venues, such as festivals and concerts (line 56).



For use in November 201

Weaknesses

- Despite have a CFO, Sam still has a poor understanding of accounting and finance (lines 23 – 24)
- Sam can be hasty (line 30) and somewhat forgetful (line 31), failing to pay attention to detail; this can be problematic for leading AFA and its expansion plans
- AFA no longer has pop-up stalls in busy semi-permanent locations, such as near the local train station (line 55), so could be missing out of business from the high foot traffic
- Sam rarely consults Kim in decision-making (lines 56 – 57), which can lead to potential problems (lines 57 – 58), conflict, and arguments
- AFA faces growing complexities (line 60)
- AFA is experiencing some diseconomies of scale (lines 66 – 67), which negatively affects its operations (such as pricing strategy)
- Gross and net profit margins have eroded (line 67), thus reducing the profitability of AFA
- Weaknesses revealed by the mystery shopper (lines 100 – 104):
 - poorly organized stores
 - unhelpful staff
 - staff failing to regularly mention the importance of fair trade
- There is a lack of clear purpose and strategic direction for AFA (lines 110 – 111).

Opportunities

- Opportunities for AFA to operate on a global level (line 19)
- Restructuring (lines 60 and 82) can provide opportunities to improve working relationships, communication and operational efficiency at AFA
- Business growth (line 65) also provides opportunities for AFA, in terms of sales revenues, profit, and market share
- Lower transport costs and greater bulk buying (line 66) can help to lower average costs of production (economies of scale), which enables AFA to reduce prices or enjoy greater profit margins
- Strengthening relationships with stakeholders (lines 74 – 75) and the community (lines 86 – 87) can provide new business opportunities for AFA
- The sourcing of new suppliers of fair trade goods (line 86) may help to improve the competitiveness and profitability of AFA
- The possibility of converting AFA to a cooperative (line 92) can reduce costs as managers become associates so would not be paid a salary (lines 92 – 93) and improve motivation (as the managers become members, not employees, of AFA).



Threats

- Higher prices (line 68) could undermine *AFA*'s position in the retail market (line 72)
- The combination of increasing costs and management unhappiness (line 88) can create huge conflict and problems for *AFA*
- Potential fallout between Finn and Sam (lines 107 – 108), which could jeopardize the operations of the business.

Exam Tips

SWOT analysis is not a simple list of advantages and disadvantages of a particular organization or decision facing the business.

It is important that you explain or justify why a particular point is a strength, weakness, opportunity or threat. The above example, produced in bullet point format, is for illustrative purposes only. Remember, what might be regarded as a strength for one organization could equally be deemed as a weakness for others.

BUSINESS MANAGEMENT – PAPER 1 CASE STUDY PACK

PEST Analysis

Case Study: As Fair As (AFA)

For use in November 2018

PEST analysis for AFA

The BM syllabus refers to STEEPLE analysis (social, technological, economic, environmental, political, legal and ethical). In this analysis, 'environmental' and 'ethical' factors are covered under the section on 'social' factors, and the 'legal' issues are covered under the section on 'political' factors.

PEST analysis provides a framework for decision makers to consider factors in the external business environment that affect business operations. These factors can be categorized as **p**olitical, **e**conomic, **s**ocial and **t**echnological (PEST) factors, which can present opportunities and threats, as outlined in the case study.

Note: this year's case study does not reveal the country or region in which AFA operates, so this limits the ability to create a full PEST analysis. Examples of external factors affecting the operations of AFA are provided below.

Political (including legal factors)

- AFA operates in a developing country (line 1), so this may limit further growth of the business
- Legal considerations of changing AFA into a cooperative (line 92).

Economic

- Opportunities for AFA to operate on a global level (line 19)
- Business growth (line 65) also provides opportunities for AFA, in terms of sales revenues, profit, and market share
- The sourcing of new suppliers of fair trade goods (line 86) may help to improve the competitiveness and profitability of AFA
- The possibility of converting AFA to a cooperative (line 92) can reduce costs as managers become associates, so would not be paid a salary (lines 92 – 93) and improve motivation (as the managers become members, not employees, of AFA)
- Higher prices (line 68) could undermine AFA's position in the retail market (line 72)
- Increasing costs (line 88) can create major problems for AFA.

For use in November 2018

Social (including environmental and ethical factors)

- Strengthening relationships with stakeholders (lines 74 – 75) and the community (lines 86 – 87) can provide new business opportunities for *AFA*
- Management unhappiness (line 88) can create huge conflict and problems for *AFA* and its external stakeholders
- The fair trade movement (line 71) can provide *AFA* further opportunities for growth
- New suppliers of fair trade goods could be sourced (line 86), creating growth opportunities for *AFA* as it tackles the problems of eroding GPM and NPM (line 67) and higher prices (line 68).

Technological

- Lower transport costs (line 66) can help to lower *AFA*'s average costs of production (economies of scale), which enables *AFA* to reduce prices and/or enjoy greater profit margins
- Despite operating in a developing economy (line 1), *AFA*'s e-commerce business to consumer (B2C) website (lines 51 – 52) can be used to reach more customers, possibly on a global scale.

Exam Tip

STEEPLE analysis is not a simple list of external opportunities and threats categorised in a PEST framework. It is vital that you explain or justify your argument. For example, why would the possibility of opportunities for *AFA* to operate on a global level (line 19) be an economic factor?

The above example of a PEST analysis, produced in bullet point format, is for illustrative purposes only. Remember, what one student might regard as an economic factor for the organization could equally be deemed as a social or even political factor by other students. The important thing is to justify your arguments.



Exam-style questions – Worksheet 1

1. Explain **two** reasons why Sam Temperton may have set up his own business (*AFA*). [4]

2. Explain **two** key functions of management. [4]

3. With reference to *AFA*, describe **two** steps in setting up a new business. [4]

4. Suppliers understood Sam's purpose (lines 46 – 47). Explain **two** roles of a mission statement. [4]

5. Explain the importance of human resource planning for *AFA*. [4]



Exam-style questions – Worksheet 1 (Answers)

1. Explain **two** reasons why Sam Temperton may have set up his own business (AFA). [4]

Reasons could include:

- To be more self-reliant, from an economic perspective, especially as Sam did not attend university after his IB studies (line 11)
- To gain economic security due to the potential to earn profits by being an entrepreneur
- The desire to be independent and to have autonomy (to be your own boss)
- To pursue personal interests, such as the pursuit of the fair trade movement (line 15) and corporate social responsibility (line 18).

2. Explain **two** key functions of management. [4]

An explanation of any two of the following functions of management:

- Setting organizational objectives
- Organizational planning
- Managing human and physical resources to meet organizational objectives
- Directing and motivating staff
- Coordinating operational activities
- Controlling and measuring performance.

3. With reference to AFA, describe **two** steps in setting up a new business.

- Having a business idea/plan, and identifying market opportunities
- Securing internal and/or external sources of finance
- Finding a business location
- Marketing and establishing a customer base
- Human resource planning and the recruitment of workers.

4. Suppliers understood Sam's purpose (lines 46 – 47). Explain **two** roles of a mission statement. [4]

Reasons include an explanation of any two of the following:

- Communicates to stakeholders the purpose of AFA's existence and its operations
- Guides AFA's aims and objectives
- Provides a sense of drive (motivation) and direction to employees at AFA.

5. Explain the importance of human resource planning for AFA. [4]

Human resource planning refers to the forecasting of an organization's future human resource needs. Possible responses could include:

- It enables AFA to plan ahead, such as the identifying the required skills and knowledge of the workforce, in order to help the business to meet its strategic goals and growth targets
- It also involves planning the organization's recruitment and training needs, especially as AFA strives to grow and remain competitive in the fair trade market.



Exam-style questions – Worksheet 2

1. Describe the purpose of a vision (line 68). [2]

2. With reference to *AFA*, explain **two** differences between a manager and a leader. [4]

3. With reference to *AFA*, describe **two** benefits of having a marketing plan (lines 21 and 29). [4]

4. State **two** reasons why *AFA* might have chosen to use e-commerce (lines 51 – 52). [4]

5. In the context of *AFA*, distinguish between capital expenditure and revenue expenditure. [4]



Exam-style questions – Worksheet 2 (Answers)

1. Describe the purpose of a vision (line 68). [2]

The vision of a business is a written declaration of where the organization aspires to be in the future, i.e. it is the overall long-term goal of the business. Having a vision gives the organization and its internal stakeholders a clear sense of purpose.
2. With reference to AFA, explain **two** differences between a manager and a leader. [4]
 - A leader, such as Sam, takes responsibility for the overall strategic direction of the organization
 - The leader determines the vision and mission for the business
 - The leader sets the strategic direction of the organization (lines 56 – 5), inspiring others to pursue the same goals
 - Other traits of leaders include to align, motivate and mentor others, such as employees at the retail stores and managers (such as Finn and Kim) to achieve organizational aims
 - A manager's main role is to achieve specific organizational goals (line 76)
 - Managers are responsible for daily operations and practice, focusing on shorter term goals
 - Managers, such as Finn, make day-to-day decisions (line 76), e.g. monitoring daily operations and employee performance at the retail stores.
3. With reference to AFA, describe **two** benefits of having a marketing plan (lines 21 and 29). [4]

A marketing plan is a document outlining an organization's marketing objectives and the strategies to achieve these objectives. Possible benefits of having a marketing plan for AFA include:

 - Providing a framework for the introduction of a new product range (lines 40 – 41) to the market, i.e. fair trade products
 - Helping to develop appropriate marketing objectives/targets, which can be particularly beneficial as Su lacks experience in the solar power systems industry
 - Helping with marketing budgets, which is particularly important if the business has very limited finance or if it is likely to face a liquidity problem (as indicated in Table 2)
 - Helping with decision-making about *Afghan Sun's* marketing strategies
 - Keeps shareholders and other stakeholders informed about *Afghan Sun's* marketing plans and strategies.
4. State **two** reasons why AFA might have chosen to use e-commerce (lines 51 – 52). [4]
 - Greater efficiency as AFA can operate 24/7, without incurring costs in the same way the operating retail stores would
 - It gives access to larger markets, possibly on a global level (line 19)
 - To remain competitive, as rivals are likely to also be using e-commerce
 - E-commerce can be more convenient for customers
 - *Accept any other relevant reason why AFA might have chosen to use e-commerce.*
5. In the context of AFA, distinguish between capital expenditure and revenue expenditure. [4]
 - Capital expenditure refers to spending by a business on acquiring, maintaining and/or upgrading fixed assets, e.g. the expenditure on machinery, equipment and cash registers ('tills'). Investment in the four retail stores is a further example.
 - Revenue expenditure refers to the money needed for the day-to-day running of the business, e.g. finance for AFA's electricity bills and managers' salaries.



Exam-style questions – Worksheet 3

1. Describe the purpose of a mission (line 74). [2]

2. With reference to *AFA*, describe one reason for identifying target markets (line 7). [2]

3. In the context of *AFA*, distinguish between management and leadership. [4]

4. Describe **two** possible influences on *AFA*'s organizational culture. [4]

5. Explain why *AFA*, initially as a start-up business, struggled to secure finance (lines 31 – 32). [4]



For November 2018 examination

Exam-style questions – Worksheet 3

1. Describe the purpose of a mission (line 74). [2]
 - To show/state AFA's core values/aims
 - To direct/guide and motivate the executives (Finn and Kim), retail store managers and employees at AFA
 - To attract the interest of external stakeholders, such as local producers, wholesaler and financiers.
2. With reference to AFA, describe one reason for identifying target markets (line 7). [2]
 - It gives AFA useful market research data and a clear idea of customer profiles (shared characteristics), e.g. age, gender, income levels, and social class
 - It helps AFA to create a better marketing mix in order to better meet the needs of the market (for fair trade products)
 - It leads to less wastage of resources, as marketing activities (and its impact on human resources and finance) become more focused and purposeful.
3. In the context of AFA, distinguish between management and leadership. [4]
 - Leadership is about inspiring others to achieve a common goal, whereas management is about dealing with others in AFA to ensure its business goals are met
 - Leaders (Sam) set/shape the culture of the organization, whereas managers (Finn and Kim, and the four retail store managers) follow the established cultural norms of the organization
 - Sam focuses on the vision and mission of the organization, whereas managers focus on operational objectives, e.g. investigating the most appropriate pricing methods to use at AFA
 - Leaders handle and encourage change, whereas managers plan and organize operations according to set rules and parameters (policies and procedures) of AFA, such as its CSR practices
 - Sam focuses on the future of AFA, whereas managers focus on AFA's current priorities
 - Sam deals with strategic decisions, whereas managers deal with operational decisions.
4. Describe **two** possible influences on AFA's organizational culture. [4]
 - The leadership style of the organization, e.g. Sam has a laissez faire approach on a daily basis, despite maintaining overall control and not engaging in consultation with his senior executives
 - The organizational structure at AFA and its retail stores, e.g. a tall structure or flat organization
 - The decision-making process, e.g. centralized decision-making by Sam regarding growth, and senior executives (Finn and Kim) who have some decision-making authority
 - The personalities, attitudes, outlook and beliefs of the employees at AFA, who seem out of touch with Sam's vision and mission (based on the findings from the mystery shopper)
 - The history, background and values of the organization, based on its support for the fair trade movement and CSR practices.
5. Explain why AFA, as a start-up business, struggled to attract external sources of finance. [4]
 - Poor marketing and business plans – e.g. Sam forgot to include essential financial data and his business goals were not regarded as being ethical (line 32), so this gave little confidence to local bank manager
 - Limited market size – the fair trade movement was in its infancy, with products only being available at some supermarkets
 - Unknown brand name - a lack of brand recognition means that external providers of finance will worry about AFA gaining customer recognition and market share.



Exam-style questions – Worksheet 4

1. Sam Temperton is an entrepreneur. Describe the role of an entrepreneur. [2]

2. Identify **two** possible fixed costs of production that *AFA* might have. [2]

3. With reference to *AFA*, describe the importance of any **two** external stakeholder groups. [4]

4. Using Pink's motivation theory, explain how autonomy can motivate the managers of the four stores and to Kim (lines 94 – 95). [4]

5. Describe **two** problems that *AFA* was likely to have faced as a new business start-up. [4]



Exam-style questions – Worksheet 4 (Answers)

1. Sam Temperton is an entrepreneur. Describe the role of an entrepreneur. [2]
 - An entrepreneur, such as Sam Temperton, is someone who bears the financial risks of starting and managing a business such as AFA
 - The entrepreneur can develop new ideas (such as providing fair trade products via pop-up stalls or retail stores) or find a new way of offering an existing product (as supermarkets were already selling such products)
 - Sam assumes the financial risks and rewards of running the business
 - Sam has responsibility for strategic decision making in the organization.
2. Identify **two** possible fixed costs of production that AFA might have. [2]
 - Rent or mortgage payments for the premises (land and building) for the four retail stores and pop-up stalls
 - Leasing costs of capital equipment at its four retail stores and pop-up stalls
 - Salaries for senior managers, including Finn and Kim
 - Annual registration and licensing costs of running its e-commerce website.
3. With reference to AFA, describe the importance of any **two** external stakeholder groups. [4]
 - Suppliers – the businesses that supply fair trade products to AFA, such as the wholesalers and local producers (lines 49 – 50), so that it can sell these in its retail stores and pop-up stalls
 - Customers – customers are vital for the survival of AFA, e.g. word-of-mouth promotion is particularly important in the fair trade industry
 - Banks and finance providers – likely to be important as AFA is hoping to expand and have operations across the globe (line 19)
 - The government – a very important stakeholder as it regulates business activity, such as health and safety regulations, corporate law, employment laws, and administers taxes in the country
 - Local communities – AFA provides employment opportunities for people in local communities who may want to work at its retail stores
 - Competitors, such as local supermarkets that sell fair trade products, who supply the same or similar products (fair trade goods) in order to compete with AFA.

Note: shareholders are internal stakeholders, so do not reward answers that refer to shareholders as external stakeholders. Do not reward answers that mention stakeholders in general – instead, specific stakeholders need to be referred to.
4. Using Pink's motivation theory, explain how autonomy can motivate the managers of the four stores and to Kim (lines 94 – 95). [4]
 - Pink's motivation theory identifies three drivers that affect a person's level of motivation: autonomy, mastery and purpose
 - Autonomy means that Sam empowers individual managers and Kim to work independently on their projects, with no or minimal interference from Sam or Finn
 - Autonomy allows the empowered managers and Kim to make their own decisions, thereby boosting their self-esteem and level of motivation
 - It can motivate the managers and Kim as they feel trusted and valued by Sam.



Exam-style questions – Worksheet 4 (Answers) Cont'd...

5. Describe **two** problems that *AFA* was likely to have faced as a new business start-up. [4]
- The time-consuming and costly legal process of setting up *AFA*, especially as Sam had a poor understanding of accounting and finance (lines 23 – 24)
 - The lack of funds (line 20), so Sam needed to seek the support of the local bank manager
 - The lack of familiarity of operating in the retail industry (Sam had only just completed his IB diploma before setting up *AFA*)
 - The lack of product differentiation or a unique selling proposition as supermarkets were also selling fair trade products
 - Difficulties in recruiting suitably skilled and experienced managers and employees
 - Not having an established relationship with reliable suppliers who understood the purpose of *AFA* and its vision
 - Not having an established customer base, especially as fair trade products were yet to be highly popular products.



Exam-style questions – Worksheet 5

1. Define the term *cost-plus pricing* (line 6). [2]

2. Define the term *strategic plan* (line 74). [2]

3. Sam could be perceived as being *laissez-faire*. Identify **two** characteristics of *laissez-faire* leaders. [4]

4. Explain the importance of monitoring cash flow at *AFA*. [4]

5. Sam is considering whether to convert *AFA* to a cooperative (line 92). Explain **two** advantages of *AFA* being a cooperative. [4]



Exam-style questions – Worksheet 5 (Answers)

1. Define the term *cost-plus pricing* (line 6). [2]

Cost-plus is a pricing strategy that adds a mark-up to the cost of production of a product, ensuring the firm earns a profit margin.
2. Define the term *strategic plan* (line 74). [2]

A strategic plan is a firm's proposal of its business strategy, outlining its strategic direction and including the necessary resources to pursue the strategy. It starts with strategic analysis (an examination of the current position), followed by strategic choice (the possible/feasible options that it can pursue) and the strategic implementation plan (how to get to where it wants to be).
3. Sam could be perceived as being laissez-faire. Identify **two** characteristics of laissez-faire leaders. [2]
 - Prefer to have little, if any, direct involvement in daily operations (Sam leaves most things to Finn and has no real/direct involvement with his employees)
 - Allow managers and workers to tackle tasks in their own way, empowering them with decision-making power
 - Set the business goals (organizational aims and objectives) and entrusting workers to decide how best to achieve these targets
 - Empower and entrust managers and workers who are highly competent, creative and skilled.
4. Explain the importance of monitoring cash flow at AFA. [4]
 - Cash flow refers to the movement of money (cash) in and out of an organization
 - Monitoring cash flow is important to avoid having a lack of cash, which could cause liquidity problems for AFA, especially as it has been experiencing diseconomies of scale (lines 66 – 67)
 - It is useful to help AFA to manage its expenditure and the timing of its spending
 - It can also be a useful decision-making tool in pursuit of its organizational goals, such as growth.
5. Sam is considering whether to convert AFA to a cooperative (line 92). Explain **two** advantages of AFA being a cooperative. [4]
 - As the members of the cooperative are also the owners, they have a financial interest in the success of the business
 - Members (associates) have a voice in the control of the organization, which can help senior management to make more informed decisions
 - As cooperatives are owned and controlled by their members, there is democratic control (as each associate as only one vote)
 - The profit, or surplus, earned by the cooperative is shared and transferred to its members, again creating incentives to work
 - The liability of members is limited, so they are only liable to the extent of the capital they invest in the cooperative.

BUSINESS MANAGEMENT – PAPER 1 CASE STUDY PACK

Standard Level Mock Examination

Paper 1

Case Study: As Fair As (AFA)



For use in November 2018

1 hour 15 minutes

INSTRUCTIONS

- Do not open this examination paper until you have been instructed to do so
- You will need a clean copy of the *As Fair As (AFA)* case study for this examination paper
- Read the case study carefully
- A clean copy of the Business Management formulae sheet is required
- Answer any **two** questions from Section A
- Answer **the** compulsory question from Section B
- You are permitted to use a calculator for this examination paper
- Total marks available: 40 marks

SECTION A

Answer **two** questions from this section.

1. (a) Describe **one** role of a vision statement (line 68) for *AFA*. [2 marks]
 (b) Identify **two** features of a wholesaler (line 49). [2 marks]
 (c) With reference to Sam Temperton, explain the key functions of management. [6 marks]

2. (a) Describe **one** strength and **one** weakness of *AFA*. [4 marks]
 (b) Using Pink's motivation theory, explain the factors that motivate Sam Temperton. [6 marks]

3. (a) Define the following terms:
 (i) *secondary market research* (line 15). [2 marks]
 (ii) *diseconomies of scale* (lines 66 – 67). [2 marks]
 (b) Kim was hired by Sam to help with *AFA*'s accounts and finance (lines 32 to 34). Explain the importance of finance and accounts to **one** internal stakeholder and **one** external stakeholder group of *AFA*. [6 marks]

There is no additional information in this mock exam paper for Section A.

SECTION B

Answer **the** following question.

4. Kim expressed major concerns about *AFA*'s eroding gross and net profit margins. In an emergency management team meeting, Kim presented the following financial summary to Sam and Finn.

Financial ratio	2017	2016
Gross profit margin (%)	18.1	20.6
Net profit margin (%)	8.2	11.3
Return on capital employed (%)	6.2	8.4
Acid test ratio	0.7	1.1
Current ratio	1.0	1.4

Kim suggested that the fall in the profitability ratios was mainly due to rising costs of production and diseconomies of scale. Finn and Kim agreed that *AFA* needed to generate additional revenue streams.

Despite what the financial figures revealed, Sam argued that cost-plus pricing remains the most suitable pricing strategy for *AFA*'s fair trade products. He sought advice from his senior managers about the financial position of the business.

- (a) Define the term *net profit margin* (lines 67). [2 marks]
 - (b) Explain how diseconomies of scale (lines 66 to 67) can erode *AFA*'s profitability ratios. [4 marks]
 - (c) Explain why it might be important for *AFA* to generate new revenue streams. [4 marks]
 - (d) Using the additional stimulus material above and information in the case study, discuss **two** strategies that *AFA* could use to improve its financial position. [10 marks]
-

BUSINESS MANAGEMENT – PAPER 1 CASE STUDY PACK

Standard Level Mock Examination – Mark scheme

Paper 1

Case Study: As Fair As (AFA)



For use in November 2018

TEACHERS' NOTES

- These are suggested answers only
- Teachers should use their professional judgment in awarding answers that may not be included in this mark scheme
- The data and information included in Section B are provided for illustrative purposes only, in order to give students practice for the final examination in November 2018.

SECTION A

1. (a) **Describe one role of a vision statement (line 68) for AFA.** [2 marks]

The role of vision statements can include the following:

- To help AFA to set both short-term and long-term objectives
- To give the workforce a sense of purpose and direction
- To act as a driving force / motivator for the workforce
- To attract new recruits to AFA
- *Accept any other relevant role of a vision statement for AFA.*

Mark as 1 + 1

Award [1 mark] for describing one role of a vision statement.

Award [1 mark] for application to AFA.

- (b) **Identify two features of a wholesaler (line 49).** [2 marks]

Feature of wholesalers include:

- An intermediary in the distribution channel that breaks large quantities (bulk) of product into small quantities for sale by retailers, such as AFA
- Acts as a middleman (intermediary) between the manufacturers (producers) and retailers
- Buying stocks in very large quantities from manufacturers/producers, thus experiencing significant purchasing and marketing economies of scale
- Tend to only purchase a few types and/or brands of products
- Tends to sell their products directly to other businesses (B2B) rather than directly to consumers (B2C)
- Help to improve the efficiency of the supply chain
- *Accept any other relevant/correct feature of wholesalers.*

Mark as 1 + 1

Award [1 mark] for each correct feature of a wholesaler.

- (c) **With reference to Sam Temperton, explain the key functions of management.** [6 marks]

The key functions of management include the following:

- setting organizational objectives
- organizational planning
- managing human and physical resources to meet organizational objectives

- recruiting, directing and motivating staff
- coordinating operational activities
- controlling and measuring performance

With reference to Sam:

- Organizational planning
 - Sam created the original business plan/idea to sell fair trade products
 - He produced marketing and business plans
- Managing human and physical resources
 - Created an e-commerce B2C website to sell fair trade products
 - Opened four traditional retail stores by 2017
 - Delegates daily operations to Finn
- Recruiting, directing and motivating staff
 - Hired Finn as COO and promoted Kim to CFO
 - Hired a new manager for each of the four pop-up stalls
 - Recruited school leavers to replace the four managers at the pop-up stalls
- Coordinating operational activities
 - Found new suppliers of fair trade products
 - Sourced local suppliers
 - Makes most of the growth decisions himself / he makes the final decision
- *Accept any other relevant explanation.*

Award up to [3 marks] for a theoretical answer.

Award up to [5 marks] if the explanation of functions of management is mainly descriptive, but written in the context of the AFA case study.

Award [6 marks] only if the explanation is developed and written in the context of the AFA case study.

2. (a) Describe one strength and one weakness of AFA. [4 marks]

Strengths of AFA could include:

- Sam has demonstrated qualities of an entrepreneur and is very experienced, having run his own business since the age of 16 (lines 2 – 4)
- Despite have a CFO, Sam still has a poor understanding of accounting and finance (lines 23 – 24)
- Sam is determined and resilient (line 3) and enthusiastic (line 23), making him a strong leader of AFA
- Kim and Sam are old school friends, which can strengthen working relationships at AFA
- Fair trade products are proving to be very popular with AFA's customers (lines 42 – 43)

- Its product portfolio has expanded to include coffee, clothing and stationery (line 43), thereby attracting more customers
- AFA is a great success (line 53) - sales revenue has grown significantly and it now has four retail stores selling a much larger range of fair trade products (lines 53 – 54)
- *Accept any other relevant strength of AFA.*

Weaknesses of AFA could include:

- Sam can be hasty (line 30) and somewhat forgetful (line 31), failing to pay attention to detail
- Sam rarely consults Kim in decision-making (lines 56 – 57), which can lead to potential problems (lines 57 – 58), conflict, and arguments at AFA
- AFA is experiencing some diseconomies of scale (lines 66 – 67), which negatively affects its business operations
- Gross and net profit margins have eroded (line 67), thus reducing the profitability of AFA
- Weaknesses have been revealed by the mystery shopper (lines 100 – 104): poorly organized stores, unhelpful staff and staff failing to regularly mention the importance of fair trade
- There is a lack of clear purpose and strategic direction at AFA (lines 110 – 111)
- *Accept any other relevant weakness of AFA.*

Mark as 2 + 2

Award [1 mark] for each valid strength and weakness identified, and [1 mark] for the development of why this is the case for AFA.

(b) Using Pink’s motivation theory, explain the factors that motivate Sam Temperton. [6 marks]

Daniel Pink’s theory of motivation is based on the notion of three drivers: autonomy, mastery, and purpose. He argues that professional level workers in the 21st Century are not motivated chiefly or only by money. Instead, they desire:

- Opportunities to *master* their profession or skills set, and
- *Autonomy* (independence) in the workplace
- Prospects for feeling/achieving a sense of doing a job that has *purpose* beyond themselves.

Pink’s motivation theory can be applied to Sam, as the CEO to show that autonomy, mastery, and purpose could be the three drivers, or factors, that motivate him at AFA. Examples from the case study include:

- Mastery – there is evidence from the stimulus that Sam has enjoyed opportunities to lead *AFA*.
 - He has been a successful business owner since the age of 16.
 - He has demonstrated traits such as determination, resilience and creativity, which have helped him to master his entrepreneurial skills set
- Autonomy – again, there are several suggestion in the stimulus material to suggest Sam has, and enjoys, autonomy at *AFA*.
 - Sam rarely consults Kim or others when making growth decisions (lines 56 – 57); he tends to make these decisions himself
 - Kim and Finn are empowered to make their own decisions as CFO and COO respectively (Finn is left alone to run daily operations)
 - Sam retains overall control of *AFA* (line 64), yet does not generally participate in the day-to-day running of *AFA* (line 73)
 - He spends an increasing amount of time visiting countries to source new suppliers of fair trade goods (lines 85 – 86)
- Purpose – there is evidence from the case study that Sam believes in a case over and above the drive to earn profit.
 - Sam believes in and is motivated by the fair trade movement
 - He practices corporate social responsibility (CSR) in his business operations (lines 18 – 19)
 - *AFA*'s vision is to create opportunities for both internal and external stakeholders (lines 68 – 69)
 - He focuses on developing strategic plans and ensuring that *AFA* stays true to its mission (line 73 – 74)
 - He is constantly looking for new ways to grow *AFA* (line 78).

Award up to **[2 marks]** if there is some or partial understanding shown of Pink's motivation theory. The answer is not complete and/or applied to *AFA*.

Award up to **[4 marks]** if there is a good understanding of Pink's theory, i.e. all three drivers of motivation are clearly identified. There is some application to the case study. Note: merely mentioning *AFA* is not application.

Award up to **[6 marks]** if there is a thorough understanding of Pink's theory. There is clear application of all three drivers of motivation, written in the context of the case study.

Note: the application does not have to be exactly as above; which has been provided for illustrative purposes only.

3. (a) Define the following terms:

(i) secondary market research (line 15). [2 marks]

Also known as desk research, this refers to information collected from second-hand sources (which already exist), all of which are accessible by the public.

Sam discovered from using secondary market research that supermarkets were the only place that sold fair trade products.

Award [1 mark] for a description that shows some understanding of secondary market research.

Award [2 marks] for an answer with a clear definition of secondary market research.

Note: application to the case study is not required nor expected for full marks.

(ii) diseconomies of scale (lines 66 – 67). [2 marks]

This occurs when a firm operates on a larger scale but suffers from higher average costs of production due to operational inefficiencies. Examples or causes include miscommunications, delayed decision-making, and lack of control or direction from senior management.

Award [1 mark] for a description that shows some understanding of diseconomies of scale.

Award [2 marks] for an answer with a clear definition of diseconomies of scale, similar to the one above.

Note: application to the case study is not required nor expected for full marks.

(b) Kim was hired by Sam to help with AFA's accounts and finance (lines 32 to 34). Explain the importance of finance and accounts to one internal stakeholder and one external stakeholder group of AFA. [6 marks]

Examples of internal stakeholders include:

- Sam, the chief executive officer of AFA:
 - To determine the profitability of AFA and the level of profit made from various revenue streams of the business
 - To determine the most profitable and least profitable products (such as coffee, clothes and stationery) in order to determine AFA's product strategy
 - To determine AFA's total net worth, i.e. the value of the firm's net assets.
- Managers, including the COO (Finn) and CFO (Kim):

- To maintain and control costs (especially as Finn is concerned about costs getting out of control)
- To ensure AFA operates within its budgets, such as for marketing and human resources.
- Employees, such as the school leavers or students who might work part time at AFA's retail stores:
 - To judge the degree of job security, especially if AFA's profitability is in decline
 - Similarly, the financial health of AFA can give workers an indication of the ability to pay the wages, improve working conditions, pay fringe benefits, and offer pay rises

Examples of external stakeholders include:

- Government:
 - The government will be interested in AFA's finance and accounts for taxation purposes (namely, the figure on the P&L account that reveals the firm's net profit before interest and tax)
 - To ensure accountability, i.e. that AFA operates within the law of reporting its finances (in the final accounts), including principles and ethics of accounting practice
- Suppliers:
 - Manufacturers and suppliers (of fair trade products) would be interested in AFA's liquidity and efficiency ratios to assess its ability to pay outstanding invoices
- Banks and financiers:
 - To assess the profitability and liquidity of AFA to see if it can afford external financing
 - To see the value of AFA's assets (such as the value of the four retail stores) in case collateral (security) is required to reduce the risks of lending money to the firm.
- *Accept any other relevant stakeholder and explanation, written in the context of the AFA case study. However, note that the importance of finance and accounts to customers (as an external stakeholder group) is not likely to be relevant in this case.*

*Award a maximum of **[2 marks]** if some understanding is shown, but the explanation is inaccurate, lacks clarity or lacks application to AFA.*

*Award up to **[3 marks]** if only internal or external stakeholders are considered.*

*Award a maximum of **[4 marks]** if the answer lacks depth in the explanation, but shows understanding of the importance of finance and accounts. There is an attempt at application to the AFA case study.*

*Award **[6 marks]** if the explanation has depth and is applied well to the AFA case study.*

SECTION B

4. (a) **Define the term *net profit margin* (lines 67).** [2 marks]

The net profit margin (NPM) is a profitability ratio that measures the proportion of net profit generated from the sales revenue of a business. The difference between NPM and GPM represents the ability of a firm to control its overheads or fixed costs.

*Candidates are **not** expected to word their definition **exactly** as above. Applications and examples are not reward for full marks.*

Award [1 mark] for a definition that only demonstrates partial understanding of net profit margin.

Award [2 marks] for a definition that demonstrates a clear understanding of net profit margin.

- (b) **Explain how diseconomies of scale (lines 66 to 67) can erode AFA's profitability ratios** [4 marks]

Diseconomies of scale occurs when AFA operates on a larger scale but suffers from higher average costs of production due to operational inefficiencies. Examples include miscommunications, delayed decision-making, and lack of control or direction from senior management.

The stimulus mentions diseconomies of scale, which negatively influences its operations. For example, there is growing complexities (line 60) and growth of AFA beyond the control of its management team (line 65). Inefficiencies and waste cause unit costs to rise, thereby reducing profit margins and profitability.

Accept any other relevant explanation.

Mark as 2+2

Award up to [2 marks] for an answer that shows some knowledge of the diseconomies of scale. The answer lacks depth or application to AFA.

Award up to [4 marks] for an accurate answer that shows good knowledge of diseconomies of scale. The answer shows clear application to the AFA case study.

- (c) **Explain why it might be important for AFA to generate new revenue streams.** [4 marks]

Revenue stream refers to the money or income coming into AFA from a particular activity over a period of time. AFA's revenues come mainly through the sale of its fair trade products, such as coffee, clothes and stationery.

Additional revenue streams can help to improve AFA's profitability, by addressing the following issues, for example:

- Declining gross and net profit margins (line 67).
- Higher prices (line 68), which could undermine AFA's position in the retail market (line 72), thus requiring additional revenue stream to combat this.

It is also important for AFA because additional revenue streams help to:

- increase sales revenue
- earn more profit
- remain competitive and innovative
- motivate employees, especially if remuneration costs need to increase in order to retain/attract workers.

Note: do not award marks for answers that simply explain the benefits of additional revenue streams. Answers should be applied to the stimulus material.

Award up to [2 marks] for an answer that shows some knowledge of why additional revenue streams might be important. The answer lacks depth or the explanation is rather generic. Application, if presented, is minimal or superficial.

Award up to [4 marks] for an in-depth answer that shows good knowledge of why additional revenue streams might be important, with clear application to the AFA case study.

- (d) **Using the additional stimulus material above and information in the case study, discuss two strategies that AFA could use to improve its financial position.** **[10 marks]**

Possible reasons for Kim's major concerns include:

Profitability ratios:

- Gross profit margin (GPM) has dropped by 2.5%, suggesting either falling sales of AFA's fair trade products and/or increasing cost of goods sold
- GPM of only 18.1% means that COGS account for 81.9% of sales revenues
- Net profit margin (NPM) has fallen by 3.1%, meaning AFA has not been able to control its overheads/expenses. This is now below 10%, meaning its

overall costs account for over 90% of sales revenues. This confirms Finn's concerns about costs not being kept under control (line 70)

- The return on capital employed (ROCE) has fallen by 2.2%, i.e. there is a lower return on investment. An ROCE of 6.2% might suggest a very low rate of return, especially if commercial banks are offering a similar rate of interest on savings/deposit accounts.

Liquidity ratios:

- The current ratio has dropped from 1.4 to 1.0, which could cause liquidity issues. A ratio of 1.0 means that for each \$1 of current liabilities, AFA only has \$1 worth of current assets to pay its debts. Even for a retail business, this is a dangerously low liquidity ratio.
- Worse, when stocks (inventories) are ignored from the calculation, the acid test ratio shows the firm only has \$0.7 worth of current assets for each \$1 of current liabilities. This is well below the recommended minimum of 1.0, so if AFA is unable to sell sufficient amounts of its stocks, it is unable to meet its short-term debts.

Possible strategies to improve the financial position of AFA include:

- Generating additional revenue streams, as agreed by Finn and Kim. This could be from selling a broader range of fair trade products (such as fruits or other food products) or securing sponsorships, for example. Efforts to increase sales revenues can help to improve AFA's profitability.
- Finn and Sam can seek cheaper suppliers in order to increase the GPM. In 2017, COGS accounted for 81.9% of sales revenue, so GPM is only 18.1%. Lowering direct costs would also enable Sam to stick to his cost-plus pricing strategy and keep prices relatively low to be in line with AFA's vision (lines 67 – 69). However, there is a need to consider whether the quality of the fair trade products would be compromised if cheaper suppliers were sourced.
- Improved cost control, as both COGS and expenses are extremely high. The NPM has dropped (3.1%) by more than the GPM (2.5%). This means AFA have not been able to control its expenses. Better control of operating costs will increase AFA's NPM. Salaries and administration expenses could be a major cost for the business. Sam and Kim could investigate whether it is feasible to reduce the remuneration (pay and perks) to senior management. They could also investigate how the poorly organized stores (line 102) could be improved in order to increase the firm's profitability.
- Improve staff training and development in order to tackle the perceived problems of unhelpful staff and a failure to promote fair trade at the checkouts (lines 103 – 104). Improving the 'people' element of the marketing mix can help to improve customer experiences, improve brand loyalty and hence profitability.
- *Accept any other relevant and substantiated discussion.*

*Award **[1 to 2 marks]** if the ratios are quoted in a meaningless or aimless way, or simply lifted from the additional material in Section B. There is a general discussion about the ratios without application to AFA.*

*Award **[3 to 4 marks]** for simplistic answers that show some understanding of the financial issues facing AFA, but little understanding is shown of the ratios in the stimulus material. There is no effective attempt to identify solutions to AFA's financial position.*

*Alternatively, for **[4 marks]** students may have made appropriate comments on the ratios but without developing any strategies for improving these ratios, or the strategies are unrealistic/unfeasible for AFA.*

*For **[5 to 6 marks]** answers identify issues related to the financial ratios, but with limited development or the strategies are unsupported.*

*Award a maximum of **[6 marks]** for answers that only develop one strategy.*

*For **[7 to 8 marks]** answers make effective use of the financial ratios in relation to the strategies identified to address AFA's financial position. However, the strategies for improving the financial position of AFA have not been fully justified.*

*Award a maximum of **[8 marks]** for answers that only look at the profitability ratios (GPM, NPM and ROCE) or only look at liquidity ratios (current and acid test ratios).*

*For **[9 to 10 marks]** answers are developed, discussing two relevant/feasible strategies. There is effective use of both profitability and liquidity ratios, plus other information from the case study, to support the recommendation.*

BUSINESS MANAGEMENT – PAPER 1 CASE STUDY PACK

Higher Level Mock Examination

Paper 1

Case Study: As Fair As (AFA)



For use in November 2018

2 hours 15 minutes

INSTRUCTIONS

- Do not open this examination paper until you have been instructed to do so
- You will need a clean copy of the *As Fair As (AFA)* case study for this examination paper
- Read the case study carefully, including the additional information in Sections B and C
- A clean copy of the Business Management formulae sheet is required
- Answer any **two** questions from Section A
- Answer **the** compulsory question from Section B
- Answer **the** compulsory question from Section C
- You are permitted to use a calculator for this examination paper
- Total marks available: 60 marks

SECTION A

Answer **two** questions from this section.

1.
 - (a) State **two** benefits for *AFA* of having business goals (lines 31 – 32). [2 marks]
 - (b) Describe **one** possible influence on *AFA*'s organizational culture. [2 marks]
 - (c) With reference to *AFA*, explain the purpose of vision (line 68) and mission statements (lines 74 and 105). [6 marks]

2.
 - (a) With reference to *AFA*, describe **two** benefits of having a marketing plan (lines 21 and 29). [4 marks]
 - (b) With reference to Sam Temperton, explain the importance of leadership in business organizations. [6 marks]

3.
 - (a) Define the following terms:
 - (i) *external stakeholders* (line 69). [2 marks]
 - (ii) *positioning* (line 97). [2 marks]
 - (b) With reference to *AFA*, explain the role of corporate social responsibility (CSR) in business organizations. [6 marks]

There is no additional information in this mock exam paper for Section A.

SECTION B

Answer **the compulsory** questions from this section.

4. Kim expressed major concerns about AFA's eroding gross and net profit margins. In an emergency management team meeting, Kim presented the following financial summary to Sam and Finn.

	2017	2016
Gross profit margin (%)	18.1	20.6
Net profit margin (%)	8.2	11.3
Stock turnover (number of days)	28	25
Debtor days (number of days)	32	28
Creditor days (number of days)	40	30
Acid test ratio	0.7	1.1
Current ratio	1.0	1.4
Gearing ratio (%)	18	20

Kim suggested that the fall in the profitability ratios was mainly due to rising costs of production and diseconomies of scale. Finn and Kim agreed that AFA needed to generate additional revenue streams.

Despite what the financial figures revealed, Sam argued that cost-plus pricing remains the most suitable pricing strategy for AFA's fair trade products. He sought advice from his senior managers about the financial position of the business.

- (a) Define the term *cost-plus pricing strategy* (lines 6 to 7). [2 marks]
- (b) Explain how diseconomies of scale (lines 66 to 67) can erode AFA's profitability ratios. [4 marks]
- (c) Explain why it might be important for AFA to generate new revenue streams. [4 marks]
- (d) Using the additional stimulus material above and information in the case study, discuss **two** strategies that AFA could use to improve its financial position. [10 marks]

SECTION C

Answer **the** following question.

5. Finn was convinced that the workers at the four retail stores were demotivated. He conducted his own primary market research, including interviews with several employees at these stores. He presented the following findings to Sam and Kim at their management team meeting.

- Sales staff claim to lack sufficient training to carry out all aspects of their job
- Some of the workers do not know the vision or mission of *AFA*
- Most workers interviewed felt their hourly wage rate did not reflect the amount of effort they needed to put into their work
- They do not have sufficient rest breaks during the day, and several employees commented that their work hours had been increased
- Workers are not empowered and have no decision making authority
- There are very few opportunities for career progression at *AFA*
- They are discouraged by the store managers from being members of a labour (trade) union
- Two of the four stores have labour turnover rates in excess of 20 per cent.

Whilst the findings aggrieved Sam even more, Finn argued that changes were vital at *AFA*. Sam was also rather nervous about these findings, as he has no experience in conflict resolution.

Using the additional stimulus material above (Section C) **and** information from the case study, recommend approaches that the management team should take to prevent the potential conflict from negatively affecting *AFA*'s business operations. *[20 marks]*

BUSINESS MANAGEMENT – PAPER 1 CASE STUDY PACK

Higher Level Mock Examination – Mark scheme

Paper 1

Case Study: As Fair As (AFA)



For use in November 2018

TEACHERS' NOTES

- These are suggested answers only
- Teachers should use their professional judgment in awarding answers that may not be included in this mark scheme
- The data included in Section B are provided for illustrative purposes only, in order to give students practise for the final examination in November 2018
- The additional information in Section C is for illustrative purposes only, again to give students examination practise.

SECTION A

1. (a) State two benefits for AFA of having business goals (lines 31 – 32). [2 marks]

- They create a sense of direction for the management (Sam, Kim and Finn) and workforce (those who work at the pop-up businesses and retail stores)
- They give a clear focus / target for employees and managers (such as the four retail store managers)
- Goals provide a gauge by which progress/success of the organization can be measured, such as AFA's strive for growth (line 65)
- They can act as a motivational tool for the workforce
- Goals provide a framework for management decision-making
- *Accept any other reasonable benefit.*

Award [1 mark] for each benefit, up to [2 marks]. Award only [1 mark] if the answer has no clear application to AFA.

(b) Describe one possible influence on AFA's organizational culture. [2 marks]

Possible influences include:

- The leadership style of the organization – Sam is rather laissez faire (preferring not to be too involved, but allowing Finn to run AFA on a daily basis), rather than micromanaging his senior staff
- The influence of the leader – Sam's passion for fair trade has inspired other stakeholders of AFA, both internal and external
- The personalities, attitudes, outlook and beliefs of the workforce – it seems there is a culture gap at AFA given the findings of the mystery shopper (such as unhelpful staff and a failure of the checkout staff to mention the importance of fair trade)
- The history and background of the organization – Sam has always made the key decisions at AFA and maintains overall control, even though he is not directly involved in its daily operations
- Approaches and attitudes – AFA is dedicated to the fair trade movement (line 15) and corporate social responsibility (line 18)
- *Accept any other relevant influence/factor that is applicable to the case study.*

Award [1 mark] for describing a possible influence/factor, and up to [2 marks] if there is clear application to AFA.

- (c) **With reference to AFA, explain the purpose of vision (line 68) and mission statements (lines 74 and 105).** **[6 marks]**

The purpose of a vision statement includes:

- The vision statement of a business is a written declaration of where it aspires to be in the future
- The vision is therefore the overall long-term goal of a business (AFA's vision is to create opportunities for both internal and external stakeholders)
- Having a vision statement gives AFA and its internal stakeholders (such as Finn, Kim and the four store managers) a clear sense of purpose; this can act as a motivator too, according to Pink's motivation theory
- It provides strategic direction and describes what Sam Temperton wants AFA to achieve in the future.

The purpose of a mission statement includes:

- To show/state the organization's core values/aims
- To direct/guide and motivate AFA's managers and employees
- To attract the interest of external stakeholders, such as its suppliers (local producers and wholesalers) and investors or financiers to fund its growth
- To guide and set organizational objectives, including aspects of corporate social responsibility (line 96).

Award a maximum of [2 marks] if the explanation lacks detail or clarity, or lacks application to AFA.

Award a maximum of [4 marks] if the explanation lacks depth. There is an attempt at application to the AFA case study, and showing some understanding of the demands of the question.

Award [6 marks] if the explanation is in depth and is applied well to the AFA case study, showing a clear understanding of the demands of the question.

2. (a) **With reference to AFA, describe two benefits of having a marketing plan (lines 21 and 29).** **[4 marks]**

A marketing plan is a document outlining an organization's marketing objectives and the strategies to achieve these goals. Possible benefits of AFA having a marketing plan include:

- providing a framework for the introduction of a new product to the market; this is particularly useful for AFA as it seeks to grow (lines 57 and 65)
- helping AFA to develop appropriate marketing objectives/targets, which can be particularly beneficial as Sam and Finn are unsure about whether they can cope with the growth of the business (line 65)

- helping with marketing budgets, which is particularly important as AFA's profitability is in decline (line 67), so there may be very limited finance for marketing
- helping with decision making about marketing and pricing strategies (line 72) and the strategic direction of AFA (line 111)
- keeping internal and external stakeholders informed about AFA's business operations and its corporate strategies (although Sam and Finn are facing a significant disagreement about the strategic direction of the organization).
- *Accept any other relevant or substantiated benefit, written in the context of AFA.*

Mark as 2 + 2

Award [1 mark] for a valid benefit of a marketing plan, and up to another [1 mark] for the description or elaboration of each of these.

The response must be clearly written in the context of AFA for [4 marks].

(b) With reference to Sam Temperton, explain the importance of leadership in business organizations. [6 marks]

Leadership is the art of influencing, inspiring and motivating others to accomplish a common goal. It plays a key role in an organization and involves setting a clear vision and direction for others to follow. Sam's leadership at AFA is important for several reasons, including:

- To inspire and influence the likes of Finn, Kim and the retail store managers to achieve AFA's organizational goals – In order to get the best out of the executives, managers and employees, strong leadership is needed to motivate them and earn their respect, trust and loyalty. By contrast, ineffective leadership can harm working relationships, which is possibly evident between Sam and Finn.
- To create a sense of purpose and strategic direction – Without effective leadership, AFA cannot achieve its mission or vision, especially when faced with changes and challenges. Hence, it is vital that Sam plans effectively and initiates strategies to achieve AFA's organizational goals.
- To facilitate business operations – Sam maintains control and oversight of the strategic direction of AFA, including delegating responsibilities to senior managers such as Kim and Finn. However, he maintains the overall responsibility for the outcomes of the business.
- Improved communication so that employees are clear about the purpose of strategic and tactical decisions, rather than being confused and uncertain about work-related matters. Sam's leadership in this domain seems to be lacking, based on the findings of the mystery shopper (lines 100 – 104).
- To shape the organizational culture – Sam's leadership style will ultimately determine the organizational culture at AFA, thereby affecting its daily operations, productivity and corporate image. For example, Sam is keen to embrace corporate social responsibility (line 18) in the practices at AFA.

- To achieve corporate success – Ultimately, Sam’s leadership needs to develop trust with all stakeholders (line 14), including building employee morale and raising labour productivity, which both have a favourable impact on AFA’s profitability.
- *Accept any other relevant or substantiated reason, written in the context of AFA.*

Award up to [3 marks] for a theoretical answer, that shows some level of understanding, but there is limited, if any, application to AFA.

Award up to [4 marks] if the explanation of the importance of leadership is mainly descriptive or theoretical, but written in the context of AFA.

Award [5 – 6 marks] only if the explanation of the importance of leadership is developed and written clearly in the context of the AFA case study.

3. (a) Define the following terms:

(i) external stakeholders (line 69).

[2 marks]

These are individuals or other organizations that are not part of the business but have a direct interest in its operations. Examples include customers, suppliers, competitors, financiers, the local community, pressure groups and the government.

*Candidates are **not** expected to word their definition **exactly** as above. Application is not expected nor required for full marks.*

Award [1 mark] for a description that shows some understanding of external stakeholders.

Award [2 marks] for an answer that shows a clear definition/understanding of external stakeholders.

(ii) positioning (line 97).

[2 marks]

Positioning is a marketing tool based on customer perceptions of a particular organization, its products or its brands. The typical measure ranks the price and quality of different products, brands or firms according to the perceptions of the market.

*Candidates are **not** expected to word their definition **exactly** as above. Application is not required for full marks.*

Award [1 mark] for a description that shows some understanding of positioning.

Award [2 marks] for an answer that shows a clear definition/understanding of positioning.

(b) With reference to AFA, explain the role of corporate social responsibility (CSR) in business organizations. [6 marks]

CSR is a set of internal policies designed to demonstrate a firm's commitment to its internal and external stakeholders. It focuses on activities that improve the well-being of society by considering the impact of business activity on all stakeholder groups of the business. The role or purpose of CSR at AFA include:

- greater public awareness and support of CSR, including raising awareness of the fair trade movement (line 15)
- raising brand awareness of AFA; behaving in a corporate socially responsible way can help to raise the awareness and profile of Sam's business, thereby possibly attracting a wider customer base
- enhancing AFA's corporate image as being socially responsible is generally perceived as ethical and favourable
- improving customer loyalty if AFA is perceived by the public to be socially responsible, so customers are more likely to support such organizations that contribute positively to society
- contributing to sustainable development (Elkington's triple bottom line) for all AFA stakeholders, by generating social, economic and environmental benefits
- creating marketing and recruitment opportunities for AFA to grow its business
- *Accept any other well-explained role of CSR, written in the context of the AFA case study.*

Award a maximum of [2 marks] if the explanation is lacks detail or clarity, or lacks application to AFA.

Award a maximum of [4 marks] if the explanation lacks depth. There is an attempt at application to the AFA case study, and showing some understanding of the demands of the question.

Award [6 marks] if the explanation is in depth and is applied well to the AFA case study, showing a clear understanding of the demands of the question.

SECTION B

4. (a) **Define the term *cost-plus pricing strategy* (lines 6 to 7).** [2 marks]

Cost-plus is a pricing strategy that adds a mark-up to the cost of production of a product, ensuring the firm earns a profit margin.

Award [1 mark] for a definition that shows some understanding of the cost-plus pricing.

Award [2 marks] for an answer with a clear definition of a cost-plus pricing strategy.

- (b) **Explain how diseconomies of scale (lines 66 to 67) can erode AFA's profitability ratios.** [4 marks]

Diseconomies of scale occurs when AFA operates on a larger scale but suffers from higher average costs of production due to operational inefficiencies. Examples include miscommunications, delayed decision-making, and lack of control or direction from senior management.

The stimulus mentions diseconomies of scale, which negatively influences its operations. For example, there is growing complexities (line 60) and growth of AFA beyond the control of its management team (line 65). Inefficiencies and waste cause unit costs to rise, thereby reducing profit margins and profitability.

Accept any other relevant explanation.

Mark as 2+2

Award up to [2 marks] for an answer that shows some knowledge of the diseconomies of scale. The answer lacks depth or application to AFA.

Award up to [4 marks] for an accurate answer that shows good knowledge of diseconomies of scale. The answer shows clear application to the AFA case study.

(c) Explain why it might be important for AFA to generate new revenue streams. [4 marks]

Revenue stream refers to the money or income coming into AFA from a particular activity over a period of time. AFA's revenues come mainly through the sale of its fair trade products, such as coffee, clothes and stationery.

Additional revenue streams can help to improve AFA's profitability, by addressing the following issues, for example:

- Declining gross and net profit margins (line 67).
- Higher prices (line 68), which could undermine AFA's position in the retail market (line 72), thus requiring additional revenue stream to combat this.

It is also important for AFA because additional revenue streams help to:

- increase sales revenue
- earn more profit
- remain competitive and innovative
- motivate employees, especially if remuneration costs need to increase in order to retain/attract workers.

Note: do not award marks for answers that simply explain the benefits of additional revenue streams. Answers should be applied to the stimulus material.

Award up to **[2 marks]** for an answer that shows some knowledge of why additional revenue streams might be important. The answer lacks depth or the explanation is rather generic. Application, if presented, is minimal or superficial.

Award up to **[4 marks]** for an in-depth answer that shows good knowledge of why additional revenue streams might be important, with clear application to the AFA case study.

- (d) **Using the additional stimulus material above and information in the case study, discuss two strategies that AFA could use to improve its financial position.** [10 marks]

Possible reasons for Kim's major concerns include:

Profitability ratios:

- Gross profit margin (GPM) has dropped by 2.5%, suggesting either falling sales of AFA's fair trade products and/or increasing cost of goods sold
- GPM of only 18.1% means that COGS account for 81.9% of sales revenues
- Net profit margin (NPM) has fallen by 3.1%, meaning AFA has not been able to control its overheads/expenses. This is now below 10%, meaning its overall costs account for over 90% of sales revenues. This confirms Finn's concerns about costs not being kept under control (line 70)
- The return on capital employed (ROCE) has fallen by 2.2%, i.e. there is a lower return on investment. An ROCE of 6.2% might suggest a very low rate of return, especially if commercial banks are offering a similar rate of interest on savings/deposit accounts.

Liquidity ratios:

- The current ratio has dropped from 1.4 to 1.0, which could cause liquidity issues. A ratio of 1.0 means that for each \$1 of current liabilities, AFA only has \$1 worth of current assets to pay its debts. Even for a retail business, this is a dangerously low liquidity ratio.
- Worse, when stocks (inventories) are ignored from the calculation, the acid test ratio shows the firm only has \$0.7 worth of current assets for each \$1 of current liabilities. This is well below the recommended minimum of 1.0, so if AFA is unable to sell sufficient amounts of its stocks, it is unable to meet its short-term debts.
- The long term (gearing) liquidity ratio is not a major concern as only 18% of the value of capital employed is funded by loans. However, this might suggest there is scope for AFA to use external sources of finance to improve its financial position and to fund its growth plans.

Efficiency ratios:

- The stock turnover ratio has increased by 3 days, suggesting that AFA is taking a little longer to sell its inventory. This could account for the fall in the GPM and NPM as sales are in decline.
- The larger debtor days ratio also suggests it is taking AFA an extra 4 days on average to collect the money owed by customers (who have bought fair trade products using credit). This can harm the liquidity of the business, especially as the difference between the credit and debtor days ratio is now 8 days.
- The creditor days ratio has increased by 10 days, suggesting that AFA is either struggling to repay its short term debts, or has become rather inefficient in pay settlements with its trade creditors and suppliers.

Possibilities strategies to improve the financial position of AFA include:

- Generating additional revenue streams, as agreed by Finn and Kim. This could be from selling a broader range of fair trade products (such as fruits or other food products) or securing sponsorships, for example. Efforts to increase sales revenues can help to improve AFA's profitability.
- Finn and Sam can seek cheaper suppliers in order to increase the GPM. . In 2017, COGS accounted for 81.9% of sales revenue, so GPM is only 18.1%. Lowering direct costs would also enable Sam to stick to his cost-plus pricing strategy and keep prices relatively low to be in line with AFA's vision (lines 67 – 69). However, there is a need to consider whether the quality of the fair trade products would be compromised if cheaper suppliers were sourced.
- Improved cost control, as both COGS and expenses are extremely high. The NPM has dropped (3.1%) by more than the GPM (2.5%). This means AFA have not been able to control its expenses. Better control of operating costs will increase AFA's NPM. Salaries and administration expenses could be a major cost for the business. Sam and Kim could investigate whether it is feasible to reduce the remuneration (pay and perks) to senior management. They could also investigate how the poorly organized stores (line 102) could be improved in order to increase the firm's profitability.
- Improve staff training and development in order to tackle the perceived problems of unhelpful staff and a failure to promote fair trade at the checkouts (lines 103 – 104). Improving the 'people' element of the marketing mix can help to improve customer experiences, improve brand loyalty and hence profitability.
- Better relations with suppliers and trade creditors in order to improve its efficiency ratios. Whilst delayed payments (of 10 days) to suppliers or creditors can improve AFA's cash flow, it can also damage relationships. Similarly, better relations with customers can encourage debtors to pay on time, or even a little earlier, which helps to improve AFA's liquidity position.
- *Accept any other relevant and substantiated discussion.*

Award [1 to 2 marks] if the ratios are quoted in a meaningless or aimless way, or simply lifted from the additional material in Section B. There is a general discussion about the ratios without application to AFA.

Award [3 to 4 marks] for simplistic answers that show some understanding of the financial issues facing AFA, but little understanding is shown of the ratios in the stimulus material. There is no effective attempt to identify solutions to AFA's financial position.

Alternatively, for [4 marks] students may have made appropriate comments on the ratios but without developing any strategies for improving these ratios, or the strategies are unrealistic/unfeasible for AFA.

For [5 to 6 marks] answers identify issues related to the financial ratios, but with limited development or the strategies are unsupported.

Award a maximum of **[6 marks]** for answers that only develop one strategy.

For **[7 to 8 marks]** answers make effective use of the financial ratios in relation to the strategies identified to address AFA's financial position. However, the strategies for improving the financial position of AFA have not been fully justified.

Award a maximum of **[8 marks]** for answers that only look at the profitability ratios (GPM, NPM and ROCE) or only look at liquidity ratios (current and acid test ratios).

For **[9 to 10 marks]** answers are developed, discussing two relevant/feasible strategies. There is effective use of both profitability and liquidity ratios, plus other information from the case study, to support the recommendation.

SECTION C

Answer **the compulsory** question from this section.

- 5. Using the additional stimulus material above (Section C) and information from the case study, recommend approaches that the management team should take to prevent the potential conflict from negatively affecting AFA's business operations. [20 marks]**

Possible issues that could be considered include:

- Sam rarely consults Kim in decision-making (lines 56 – 57), which can lead to potential problems (lines 57 – 58), conflict, and arguments within AFA
- Poor management control, as at least two of the stores are poorly organized (line 101) and the workers are perceived to be unhelpful (line 102)
- Evidence of a weak corporate culture as checkout staff were found to fail to regularly mention the importance of fair trade (line 103)
- Section C also includes some major concerns that need to be addressed in order to prevent potential conflict from harming AFA's operations.

Conflict resolution approaches might include:

- Conciliation and arbitration
- Employee participation and industrial democracy
- Negotiation with labour unions, despite workers being discouraged by the store managers to join such unions
- No-strike agreement
- Having a single-union agreement, to improve communications between the workforce and senior management
- Seek better ways to consult with managers and employees
- *Accept any other relevant substantiated conclusion.*

Further guidance on the assessment criteria is provided below. There are 5 assessment criteria for Section C:

Criterion A: Knowledge and understanding of tools, techniques and theories

Criterion B: Application

Criterion C: Reasoned arguments

Criterion D: Structure

Criterion E: Individual and societies

Criterion A: Knowledge and understanding of tools, techniques and theories

Examples of relevant theories, management tools and techniques include:

- Approaches to conflict resolution
- Employer-employee relations: potential influence of labour unions, pay and conditions
- Corporate social responsibility (CSR) and ethical business objectives
- Human resource planning
- Motivation theory, especially Daniel H. Pink (but possibly F. Herzberg and F.W. Taylor in relation to the stimulus material in Sections B and C, such as declining profitability at AFA)
- Cash flow and profitability (GPM and NPM)
- Management and leadership.

*Award up to **[2 marks]** for an answer that shows some understanding of at least two tools, techniques or theories, but these are not developed, or if there is no use of the additional stimulus material.*

*Award up to **[4 marks]** if at least two tools, techniques and theories are clearly understood and developed, with relevance to the additional stimulus material in Section C.*

Criterion B: Application

*Award up to **[2 marks]** for an answer with some limited context/application, but an answer that is not developed. The use of reasoned arguments is limited.*

*Award **[4 marks]** if the relevant tools, techniques and theories are applied well to the context of the AFA case study and the additional stimulus material.*

Criterion C: Reasoned arguments

Award up to [2 marks] if the answer shows some limited arguments, but these are not justified. There may be limited, if any, application of the additional stimulus material.

Award up to [4 marks] if relevant arguments are justified/substantiated and there is use of the additional stimulus material. The arguments are discussed in a balanced way, and a conclusion is drawn as to whether the recommended approaches are likely to work.

Criterion D: Structure

The assessment criterion awards marks for an introduction, a body, a conclusion, and fit-for-purpose paragraphs, written in a logical structure.

Award [2 marks] if either three elements are present, or the answer is mainly organized in a clear way.

Award [4 marks] if all four elements are present, i.e. the answer is clearly organized.

Criterion E: Individuals and societies

Stakeholders that might be considered include: Sam, Finn, Kim, the four retail store managers, employees, customers, financiers, and labour unions.

Award [2 marks] if one group or individual stakeholder of AFA is considered appropriately, or if both individual and group stakeholders are considered in a superficial way.

Award [4 marks] if two or more individuals and group stakeholders are considered in a balanced way. There is effective application of the additional stimulus material.

Also, when awarding the marks for each criterion, refer to **pages 65 to 68** of the Business Management Guide.

Criterion A: Knowledge and understanding of tools, techniques and theories

This criterion addresses the extent to which the candidate demonstrates knowledge and understanding of relevant business management tools, techniques and theories, as stated and/or implied by the question. This includes using appropriate business management terminology.

Marks	Level descriptor
0	The work does not reach a standard described by the descriptors below.
1	Superficial knowledge of relevant tools, techniques and theory is demonstrated.
2	Satisfactory knowledge and understanding of relevant tools, techniques or theories is demonstrated.
3	Good knowledge and understanding of relevant tools, techniques and theories is generally demonstrated, though the explanation may lack some depth or breadth.
4	Good knowledge and understanding of relevant tools, techniques or theories is demonstrated.

Criterion B: Application

This criterion addresses the extent to which the candidate is able to apply the relevant business management tools, techniques and theories to the case study organization.

Marks	Level descriptor
0	The work does not reach a standard described by the descriptors below.
1	The relevant business management tools, techniques and theories are connected to the case study organization, but this connection is inappropriate or superficial.
2	The relevant business management tools, techniques and theories are appropriately connected to the case study organization, but this connection is not developed.
3	The relevant business management tools, techniques and theories are generally well applied to explain the situation and issues of the case study organization, though the explanation may lack some depth or breadth. Examples are provided.
4	The relevant business management tools, techniques and theories are well applied to explain the situation and issues of the case study organization. Examples are appropriate and illustrative.

Criterion C: Reasoned arguments

This criterion assesses the extent to which the candidate makes reasoned arguments. This includes making relevant and balanced arguments by, for example, exploring different practices, weighing up their strengths and weaknesses, comparing and contrasting them or considering their implications, depending on the requirements of the question. It also includes justifying the arguments by presenting evidence for the claims made.

Marks	Level descriptor
0	The work does not reach a standard described by the descriptors below.
1	Statements are made but these are superficial.
2	Relevant arguments are made but these are mostly unjustified.
3	Relevant arguments are made and these are mostly justified.
4	Relevant, balanced arguments are made and these are well justified.

Criterion D: Structure

This criterion assesses the extent to which the candidate organizes his or her ideas with clarity, and presents a structured piece of writing comprised of:

- an introduction
- a body
- a conclusion
- fit-for-purpose paragraphs.

Marks	Level descriptor
0	The work does not reach a standard described by the descriptors below.
1	Two or fewer of the structural elements are present, and few ideas are clearly organized.
2	Three of the structural elements are present, or most ideas are clearly organized.
3	Three or four of the structural elements are present, and most ideas are clearly organized.
4	All of the structural elements are present, and ideas are clearly organized.

Criterion E: Individual and societies

This criterion assesses the extent to which the candidate is able to give balanced consideration to the perspectives of a range of relevant stakeholders, including individuals and groups internal and external to the organization.

Marks	Level descriptor
0	The work does not reach a standard described by the descriptors below.
1	One individual or group perspective is considered superficially or inappropriately.
2	One relevant individual or group perspective is considered appropriately, or two relevant individual or group perspectives are considered superficially or inappropriately.
3	At least two relevant individual or group perspectives are considered appropriately.
4	Balanced consideration is given to relevant individual and group perspectives.

