

Business management

Standard level

Paper 2

1 hour 30 minutes

Instructions to candidates

- Do not open this examination paper until instructed to do so.
- A clean copy of the **business management formulae sheet** is required for this examination paper.
- Section A: answer all questions.
- Section B: answer one question.
- Answers must be written within the answer boxes provided.
- A calculator is required for this examination paper.
- The maximum mark for this examination paper is **[40 marks]**

Section A

Answer **all** questions in this section.

1. Fresh Bites Café

Fresh Bites Café Ltd. is a small, locally owned coffee shop that prides itself on serving coffee and fresh, locally sourced food. Established in 2018, FreshBites Café has built a loyal customer base. The café's manager, Sarah, is interested in expanding the business and wants to analyze the financial performance of the café to make informed decisions. She is particularly interested in calculating the profit and understanding the profitability of the café.

Table 1: Financial data for Fresh Bites Café for the year ended 2023 (in USD):

Sales Revenue	470,000\$
Cost of sales	180,000\$
Salaries	30,000\$
Operating expenses	150,000\$
Marketing expenses	20,000\$
Interest	10,000\$
Tax	20,000\$
Dividends	10,000\$

(a) Define the term *profit*.

[2]

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(Question 1 continued)

(c) Using information from **Table 1**, calculate:

(i) the Gross Profit Margin for Fresh Bites Café (*no working required*); [1]

(ii) the Profit Margin for Fresh Bites Café (*no working required*). [1]

(d) Explain **one** advantage of Fresh Bites Café having a high gross profit margin. [2]

2. Lovely Snacks (HSL)

Lovely Snacks is a social enterprise founded in 2015, producing organic, gluten-free snacks aimed at health-conscious consumers while promoting positive social and environmental impact. A portion of the company's profits is reinvested into community initiatives, such as educational programs for nutrition in schools. Lovely Snacks is considering employee on-the-job training to boost productivity as the business grows. As part of growth Lovely Snacks is considering an investment of \$150,000 in new machinery for producing meals and has made an estimation of net cash flows for the next 4 years that is the life span of the investment.

Table 2: Projected Net Annual Cash Flows from the production of meals (in USD):

Year	Annual Net Cash Flows
1	\$35,000
2	\$45,000
3	\$40,000
4	\$50,000

(a) Define the term *on-the-job training*. [2]

(b) Explain **one** advantage of Lovely Snacks operating as a social enterprise. [2]

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(Question 2 continued)

(d) Explain **one** disadvantage of Lovely Snacks using the ARR as an investment appraisal technique. [2]

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Section B

Answer **one** question from this section.

4. Smile Bags Ltd.

Smile Bags Ltd. (SB) is an emerging business specializing in eco-friendly packaging solutions. Founded in 2021 by Michael Harris, SB manufactures reusable and biodegradable bags designed to reduce plastic waste. The company is headquartered in Seattle, Washington, and operates with a mission statement to "Promote sustainability through innovative packaging solutions."

SB initially launched with a line of reusable shopping bags made from recycled materials. Due to the growing demand for sustainable products, the company has expanded its range to include biodegradable food packaging and eco-friendly gift wraps. In the past year, SB reported revenues of \$10 million, with a profit of \$1.5 million. The company has 50 employees, including a production team, marketing specialists, and customer service representatives.

With the rapid growth of the company, SB is facing challenges related to managing its expanding workforce. The company needs to implement effective recruitment strategies and training programs to maintain operational efficiency and employee satisfaction.

(a) Define the term *mission statement* [2]

SB has built a strong brand presence through social media campaigns and partnerships with environmental organizations. The company is considering launching a new line of customizable eco-friendly bags aimed at corporate clients. This strategic move is intended to tap into the corporate gifting market and expand its customer base.

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(Question 4 continued)

- (b) Explain **one** above-the line **and one** below-the-line promotional strategy SB could use to promote its new line of customizable eco-friendly bags. [4]

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SB is evaluating options for financing its expansion into international markets. The company is considering becoming a publicly held company to raise capital for its growth.

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(Question 4 continued)

- (c) Explain **one** advantage **and one** disadvantage of SB becoming a publicly held company to finance its expansion. [4]

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To expand its market reach and boost sales, SB is considering two different distribution channel options:

Option A: E-commerce Expansion

- Develop a sophisticated e-commerce platform
- Implement a digital marketing strategy
- Partner with influencers and bloggers for product promotion
- Offer personalized online shopping experiences

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(Question 4 continued)**Option B: Retail Partnership**

- Partner with a national chain of eco-friendly stores
- Set up dedicated display areas in partner stores
- Provide staff training to partner store employees
- Develop co-branded marketing campaigns

Table 3: Projected Costs and Benefits of Distribution Options

Aspect	Option A: E-commerce	Option B: Retail Partnership
Initial Investment	\$200,000	\$150,000
Projected Annual Sales Increase	\$1,500,000	\$1,200,000
Profit Margin	25%	20%
Market Reach (Year 1)	500,000 potential customers	300,000 potential customers
Brand Control	High	Medium
Customer Data Access	High	Low

Table 4: Employee Survey on Distribution Options

Factor	Preference for Option A	Preference for Option B
Alignment with company values	70%	60%
Perceived long-term potential	65%	55%
Excitement about the strategy	75%	50%

Table 5: Current SB Performance Metrics

Metric	Current Performance
Customer Satisfaction Rate	85%
Average Order Value	\$50
Repeat Customer Rate	60%
Market Share	5%

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(Question 4 continued)

(d) Using the data provided in **Table 3, Table 4, Table 5** and other information in the stimulus, evaluate which distribution channel option SB should choose to expand its market reach and boost sales. [10]

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5. Health Glow Ltd.

Health Glow Ltd. is a fast-growing health and wellness company founded in 2018 by Jennifer Lee, a former nutritionist. Based in California, USA, Health Glow is a privately held company that offers a range of health supplements and wellness products. The company's mission statement is "Promoting health and well-being through natural products."

Health Glow initially started as an online store selling organic vitamins and supplements aiming at a target market of health-conscious consumers. As the market for health and wellness products grew, Health Glow expanded its product line to include skincare, herbal teas, and fitness supplements. Last year, Health Glow reported revenues of \$20 million, with a net profit of \$3 million. The company has 80 employees, including a marketing team, product development specialists, and customer service staff.

(a) Define the term *target market*

[2]

Health Glow is considering expanding its operations by opening physical stores. To finance this, the company is evaluating two options: seeking investment from a business angel or obtaining a bank loan.

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(Question 5 continued)

(b) Explain **one** advantage **and one** disadvantage of Health Glow using a business angel to finance its opening of physical stores [4]

Health Glow is also considering rebranding to support the launch of a new line of vegan protein powders. The rebranding effort would involve changing the company’s logo, packaging, and messaging to appeal to a broader audience, particularly mainstream consumers.

(c) Explain **one** advantage **and one** disadvantage of Health Glow rebranding to support the launch of its new vegan protein powders. [4]

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(Question 5 continued)

As HealthGlow expands, it faces several HR challenges. Opening its first physical retail store, will require hiring additional staff. This expansion necessitates developing new HR policies for recruitment and training. Currently, employees in customer service roles complain as they feel that there are limited opportunities for career advancement and inadequate leadership.

Jennifer Lee, HealthGlow's founder and CEO, practices an autocratic leadership style. She is highly involved in decision-making and tends to make decisions independently, often without consulting other managers or employees. She maintains tight control over company operations, delegating only routine tasks to subordinates. Lee closely monitors employee performance and often provides direct instructions on how tasks should be completed. This approach allows for quick decision-making, which has been beneficial during the company's rapid growth phase.

Lee believes that her strong vision for the company and industry expertise justify this approach. However, recent employee surveys have indicated mixed feelings about her leadership.

Table 6: Employee Survey Results on Leadership:

Survey Category	Employee Satisfaction (%)
Overall Job Satisfaction	70%
Leadership and Communication	55%
Employee Involvement in Decisions	45%
Motivation and Engagement	60%

(g) Using the data provided in **Table 6** and other information in the stimulus, evaluate the effectiveness of Jennifer Lee's autocratic leadership style on employee morale and performance at Health Glow. [10]

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