

6. Mr Li is an experienced chef who has worked for several five-star hotels in Hong Kong. Two years ago, Mr Li established a French restaurant called Platine in Tsim Sha Tsui. Platine offers a good selection of traditional French cuisine and wines in a spacious environment. As Mr Li likes eating fine food, almost all the ingredients and wines of the restaurant are imported from France.

Platine's profits were satisfactory in the first year after its commencement. However, sales declined and losses were incurred in the last few months. To turn the situation around, Mr Li has employed a management consultant, Mr Sze , to analyse the restaurant 's problems.

After a thorough investigation, Mr Sze thinks that high inventory cost , such as the inventory cost of oysters, is one of the reasons for the losses . The past sales records show that Platine sold 400 dozens of oysters each week. Oysters were ordered in dozens and the ordering cost was \$800 per order. The average holding cost per dozen oysters was \$16 per week. As oysters are among the favourite dishes provided by Platine, it is the restaurant's practice to order 600 dozen oysters each time to avoid shortages . Hence, many oysters have to be disposed of, leading to an unnecessary cost to the restaurant. In view of this, Mr Sze suggests that the restaurant can adopt the Economic Order Quantity (EOQ) model to reduce its inventory cost.

Mr Sze explains that fluctuations in the exchange rate of the Euro also have a great impact on the restaurant's profits as most of its ingredients and wines are imported from France. He then mentions that hedging is a method commonly used to manage such risk.

Finally, Mr Sze comments that fine food quality and nice dining environment are not enough to keep customers as they consider a lot of factors in making their purchase decisions. Mr Sze suggests that Mr Li should make use of the marketing concept in operating his restaurant and at the same time develop effective marketing mix strategies to enhance its competitiveness.

- (a) (i) Explain how the use of the EOQ model can reduce inventory cost. (3 marks)
- (ii) Using the EOQ model, calculate the optimal order quantity of oysters (in dozens) for Platine. Show your workings. (2 marks)
- (b) Briefly describe two ways to hedge against the Euro exchange rate risk. (4 marks)
- (c) Use the case of Platine to illustrate the meaning of marketing concept. (3 marks)
- (d) With reference to the customer decision-making process, outline the steps Platine 's customers should take before they make their purchase decisions. (6 marks)
- (e) Other than product, there are three other elements of the marketing mix. Suggest one way in which Platine can use each of these other elements to enhance its competitiveness. (6 marks)

7. Skyline Airways is a long-established listed company based in Hong Kong . The company has a wide network serving travellers all over the world. Over the last decade, the company has gained a reputation and its earnings were satisfactory.

At a regular meeting, the Customer Relations Manager reported that there had been an increase in the number of customer complaints against crew members. The Human Resources Manager commented, "Our company policy and working conditions are among the best. The salary and welfare of the crew members have been improving, making our compensation packages more competitive than the other airline companies. However, the supervisors tend to be conservative in appraising employees, so only a small number of crew members get promoted. This may adversely affect their morale."

The Financial Manager raised other concerns, "We are in a period of economic fluctuation and rising oil price, which may affect our profits. Unfortunately these risks are uninsurable. Also, more and more travel agencies delay their payments. As we rely quite heavily on agencies' sales , it seems that there is a need to review and tighten the existing credit policy. "

The Chief Executive Officer (CEO) added, "Apart from the above problems, we are now facing increasing risks and challenges as a result of rapid environmental change. Even though the company is able to maintain its business, exploring ways to expand and diversify our business is of great strategic importance. Therefore, we are now planning to take over a flight catering company which involves a substantial amount of money. On top of the cash reserve, we need to find other ways to obtain more funds for the takeover."

The meeting ended with the CEO's request for a proposal from the top management on the issues raised, which would be discussed at the next meeting.

- (a) From the perspective of human resources management, identify two possible adverse consequences of crew members' low morale to Skyline Airways. (4 marks)
 - (b) With reference to Herzberg's Dual -Factor theory, suggest three ways to motivate the crew members of Skyline Airways. (6 marks)
 - (c) Give three reasons why the risk of economic fluctuation faced by Skyline Airways is uninsurable. (6 marks)
 - (d) List any two elements of credit policies. Suggest one way in which Skyline Airways can use each of these two elements to reduce the delays in payment by travel agencies. (4 marks)
 - (e) Suggest three sources of funds for the above takeover. Give a reason for each of your suggestions. (6 marks)
8. Training of front-line staff is important to banks.
- (a) Describe the steps that a bank should take to perform its training function. (10 marks)
 - (b) A large bank is considering buying an expensive computer system to be used for training its frontline staff. Assume the Net Present Value (NPV) method is used to evaluate the purchase of the computer training system, identify the variables of the NPV formula and illustrate the meaning of each with an example. (10 marks)

QUESTION 6

(a) (i) At the EOQ, the total inventory cost (i.e. ordering cost and carrying cost) is minimal among all possible quantities.

$$(ii) EOQ = \sqrt{\frac{2(4)(10)}{1}} \text{ dozens} \\ = 200 \text{ dozens}$$

(b) Ways:

- buy and deposit Euro
- buy forward contracts on Euro
- buy call options of Euro
- buy futures on Euro

(2 marks for each relevant way, max. 4 marks)

(c) Marketing concept:

- A business should analyse the needs of its customers and take appropriate measures to satisfy those needs in order to make profit.
- Platine should investigate the taste and preferences of its customers and offer the menu items that meet their needs.

(d) Steps:

- stimulus: e.g. read an advertisement in a food magazine
- need/problem awareness: e.g. feel hungry
- information search: e.g. obtain information from personal sources (e.g. family or friends) or commercial sources (e.g. advertisements on magazine or website)
- development of alternatives: e.g. choose several restaurants
- evaluation of alternatives: e.g. compare Platine with other restaurants

(2 marks for each relevant step, max. 6 marks)

(e) Ways:

- price: e.g. competition-based pricing / price differentiation
- promotion: e.g. advertisement / waiter's recommendations
- place: e.g. take away service / longer service hours

(2 marks for each relevant way, max. 6 marks)

QUESTION 7

(a) Adverse consequences:

- higher absenteeism / labour turnover
- lower job satisfaction
- poor performance due to lack of motivation

(2 marks for each relevant consequence, max. 4 marks)

(b) Ways:

- give sense of recognition and achievement to employees
- empowerment and allow job autonomy
- offer more development opportunities
- adjust job content to make it more interesting and challenging

(2 marks for each relevant way, max. 6 marks)

(c) Reasons:

- difficult to measure the probability of financial loss
- the loss is not accidental
- law of large number is not easily applied
- the risk is speculative

(2 marks for each relevant reason, max. 6 marks)

(d) Ways:

- collection policy: expedite debt collection procedures
- credit term: adjust the discount terms to encourage early repayment
- credit standard: set stringent credit standards and credit limits to wipe out those travel agencies with poor repayment records

(2 marks for each relevant way, max. 4 marks)

(e)

<i>Sources of fund:</i>	<i>Reasons</i>
Issue of shares	- no interest burden or collateral requirement - avoid increasing the gearing / leverage ratios - no repayment required
Issue of debenture	- no dilution of control and shareholdings - enjoy tax saving on interest expense - benefit from leverage effect
Long-term bank borrowings	- no issuing cost - enjoy tax saving on interest expense - benefit from leverage effect
Liquidation on fixed assets	- no issuing cost - no interest or dividend burden - fully utilise the financial resources

(1 mark for each source and 1 mark for each relevant justification, max 6 marks)

QUESTION 8

(a) Steps:

- identify training needs: e.g. unawareness of front-line staff on regulations of investment products .
- formulate training objectives and plan: e.g. update front-line staff on the latest regulations of investment products
- design training programme(s): e.g . in forms of workshops, on- line training kit
- implement the training programme: e.g . require front-line staff to attend the training within a specific period of time
- evaluate the effectiveness of the training programme: e.g. written test for front-line staff on the regulations of investment products

(2 marks for each relevant step, max. 10 marks)