

**2014\_1.** Explain TWO types of insurance that a restaurant should take out. (4 marks)

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**2014\_2.** a) With a show how the Economic Order Quantity of a product is determined. (2 marks)

b) The following data relate to a product:

Annual demand: 7200 units

Lead time: 8 days

Assuming there are 360 days in a year and no safety stock is kept, calculate the re-order level of the products.

Show your calculations. (2 marks)

**2014 Q7**

Petal Airways is a listed airline company in Hong Kong. The company carries passengers to more than 40 countries. Its high-quality service is respected worldwide.

In a management meeting, Andy, CEO of the company, said, 'Nowadays, more and more customers like to patronise budget airlines. As budget airlines account for only 5% of the aviation market in Hong Kong, this segment has good potential. We may set up a budget airline with a new brand to capture this business opportunity'

Billy, the Marketing Director, replied, 'That's a good idea! A budget airline can make long-haul travel accessible to young people who have a low income but like to travel abroad during their vacation. Apart from individual consumers, we may also serve business customers as some firms which transport cargo to overseas countries frequently would like to lower their costs. Of course, we have to take note of the differences between the consumer market and the business market. Above all, we must master the key to the success of a budget airline, that is, making profit by keeping costs low. It may be helpful to adopt e-marketing strategies to achieve this purpose.'

Carol, the Finance Director, had reservations and said, 'Establishing a budget airline involves at least \$100 million. The largest capital expenditure item is the purchase of planes. Almost all our retained earnings have been used up, so I'm afraid our company does not have enough funds to buy planes.'

Andy replied confidently, 'Don't worry! The interest rate is now very low. We can take out a short-term loan to purchase the planes.'

Given our good relationship with banks over the years, they would be very willing to grant such a loan to us. More importantly, the risk to the airline business is higher than many other industries. We have to manage our risks well while keeping our costs low'

(a) Using the budget airline market as an example, explain THREE differences in buying behaviour between the consumer market and the business market. (6 marks)

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<b>Differences</b>	<b>Consumer Market</b>	<b>Business Market</b>	
<b>Decision making</b>			
<b>Nature of demand</b>			
<b>Price sensitivity of buyers</b>			
<b>Relationship between buyers and sellers</b>			

(b) Apart from lower cost, explain TWO benefits to the budget airline of adopting e-marketing strategies (4 marks)

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(c) What are the problems if Petal Airways finances the purchase of planes for the budget airline with a short-term loan? Describe TWO of them. (4 marks)

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(d) With reference to any TWO types of macro-environmental factors, explain why the risk to the airline business is higher than many other industries (4 marks)

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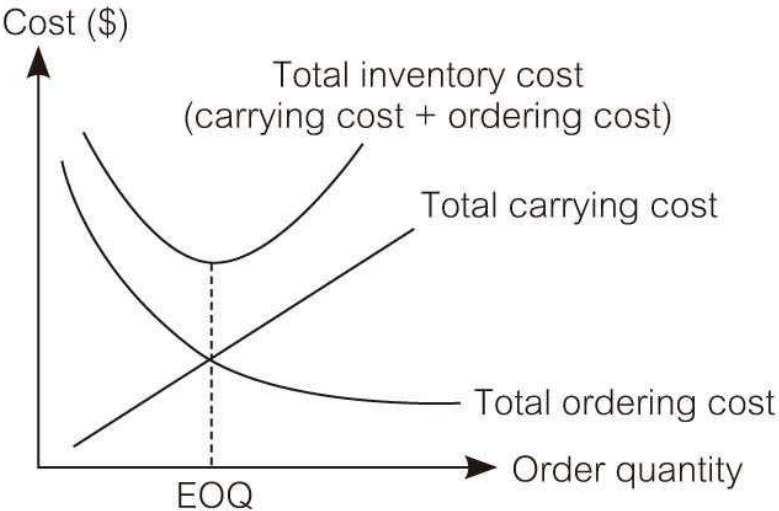
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Year		Marks
2014 Q1	<p><b>Types of insurance a restaurant should take out:</b></p> <p><b>- Fire insurance:</b> To compensate the direct and indirect losses resulted from the fire in the restaurant. It includes the damage of restaurant assets such as kitchenware, dining tables and chairs, as well as the losses incurred from the temporary suspension of business.</p> <p><b>- Fidelity guarantee insurance:</b> To cover the losses resulted from the dishonest behaviors of employee, such as fraud or theft.</p> <p><b>- Public liability insurance:</b> To pay the compensation due to the injury of customer in the restaurant.</p> <p><b>- Product liability insurance:</b> To protect the restaurant against claims from customers due to the provision of faulty food ingredients supplied by the suppliers.</p> <p><b>- Employee's compensation insurance:</b> According to the law in Hong Kong, employers are required to insure their employees, so that employees can get compensation if they got injuries or death during their work (2 marks for each relevant type of insurance , max. 4 marks)</p>	4 marks
2014 Q2	<p>a) Economic order quantity:</p>  <p>b) Re-order level = <math>(7,200 / 360) \times 8 = 160</math> units</p>	2 marks

2014 Q7	Differences	Consumer Market	Business Market
	<b>Decision making</b>	Purchase decision on budget airline is made by individual consumer alone - Decision making process is simple and it takes only a short period of time	Purchase decision is made collectively by top management and experts - Decision making process is more complex and it needs to spend a long time
	<b>Nature of demand</b>	- The demand is driven by personal needs of the consumers, eg. travelling - Frequency and purchase amount is minimal	The demand is driven by the demand of customers for services , i.e. a derived demand. eg. deliver goods to overseas customers - Frequent purchase and involve greater amount of money
	<b>Price sensitivity of buyers</b>	More sensitive to price, with elastic demand. Demand will be stimulated by a price cut	Less sensitive to price, with inelastic demand. A price cut will not lead to a greater demand of the enterprise for air transportation services
	<b>Relationship between buyers and sellers</b>	- Long term relationship will not be established	- Long term relationship will be established
b)	<p><b>Benefits of adopting e-marketing strategies:</b></p> <p><b>- <u>Boost sales:</u></b> It can save the cost on agents as tickets are directly sold to the customers. There will be more rooms to launch sales promotion, in order to boost sales.</p> <p><b>- <u>Distribution channel:</u></b> No physical store is required, the cost on rent will be saved. Also, transactions can take place around the clock, the extension of service duration can satisfy its customers, building good customer relations.</p> <p><b>- <u>Promotion:</u></b> It allows to use electronic means (eg. website, email, social media) in promotion, customers are easy reached and their response can be easily collected, improving customer relations</p> <p><i>(2 marks for each relevant type of insurance , max. 4 marks)</i></p>		



c)	<p><b>Problems of using short-term loan to finance fixed assets:</b></p> <p><b>- Higher risk:</b> Short-term loan provides capital for less than one year. If capital is still insufficient, frequent refinancing will be needed for Airways, increasing the cost of daily operations. Airways may also fail to renew the loan, increasing the operating risks.</p> <p><b>- Violate the matching principle:</b> Planes are non-current assets, and it should be financed by long-term loan.</p> <p><i>(2 marks for each relevant problem, max. 4 marks)</i></p>	
d)	<p><b>Marco-environmental factors:</b></p> <p><b>- Economic factor:</b> When the global economy turns down, demand of individual consumer for travelling decreases, while demand of business for air transportation services decreases.</p> <p><b>- Technological factor:</b> Aviation industry requires to make huge investment in buying planes, the amount of investment is relatively great.</p> <p><b>- Physical factor:</b> Aviation industry is vulnerable to unstable weather conditions</p> <p><b>- Political factor:</b> Aviation industry is subject to the immigration policy of different countries.</p> <p><i>(2 marks for each relevant factor, max. 4 marks)</i></p>	
2014 Q8	<p><b>a) Ways to cope with the shortage of salesperson:</b></p> <p><b>- Manpower planning:</b> The jewellery retail chain can predict the manpower needs during peak season, and recruit temporary staff or outsource the non-core business when needed.</p> <p><b>- Performance management:</b> Set up a fair and clear performance goals for employees in order to measure and monitor goal achievement. Employees with good performance will be rewarded, thereby reducing turnover rate.</p> <p><b>- Compensation and benefit management:</b> To provide free meal for employee or offer them with purchase discount. These kinds of personal services and family-friendly benefits can attract new member to join the chain shop.</p> <p><b>- Training and development:</b> A well-designed training and development plan can improve employees' ability to perform and get prepared for a senior position. This can retain the existing employees.</p> <p><i>(3 marks for each function of human resources management and its way, max. 10 marks)</i></p>	

b) Capital investment appraisal methods:

- **Payback period:** Compare the time it takes to recover the investment upon buying or renting the premises.

- **Net present value:** Compare the net present value (i.e. the present value of future cash inflows less the initial outlay) generated by buying or renting the premises.

- **Internal rate of return:** Use discounted cash flows to ensure a discount rate at which net present value of the investment decisions is zero.

- **Accounting rate of return:** Measure the average annual net profit generated per dollar of average investment of the two investment decisions.

(3 marks for each relevant method, max. 10 marks)