

South Tuen Mun Government Secondary School
Business, Accounting and Financial Studies
Mock Paper #2 (Management Module)

Name: _____

Class: _____ ()

PAPER 2B

Time allowed: 2½ hours

This paper must be answered in English

Instructions:

1. There are three sections in this paper: Section A (30%), Section B (50%) and Section C (20%)
2. All questions in Section A and B are compulsory. You are required to answer one of the two questions in Section C.

Section A

Answer **ALL** questions in this section.

1. Explain the meaning of financial leverage and how it benefits shareholders. (4 marks)
2. Suggest which insurance policies an in-bound travel agency should take out. (6 marks)
3. Explain, with examples, how a travel agency can target the market by considering three market coverage strategies. (6 marks)
4. What is positioning? Give two reasons to explain why a company needs to build a position for its product. (4 marks)
5. Why do companies offer employee benefits? Suggest three reasons. (6 marks)
6. Explain two situations which, when a manufacturer increases its variable costs, would not result in an increase in break-even sales or volume. (4 marks)

Section B

Mock #2

Answer *ALL* questions in this section.

7. Winnings is a large scale personal-care chainstore with operations in Hong Kong, Macau and the Mainland. They are considering opening a new line of beauty stores selling mainly skincare and cosmetic products.

The marketing director, Agnes Chow, says in a meeting, "I believe people nowadays are getting more and more concerned with their appearance, no matter if male or female. A recent research shows that men are starting to put on make-up such as concealers. If we position ourselves as experts in men's skincare and make-up, we would be the first in the market and it is really eye-catching."

The human resources manager, Maria Yung, is worried about training the beauty advisers. "If we take this position, the skills and techniques of our beauty advisers have to be really good. Since our personal care stores do not have beauty advisers, we do not have any in-house training programmes in this area. How about we outsource their training to an outside make-up professional?"

The operations director, William Fung, has reservation about the suggestion. "I understand the rationale behind the suggestion, but there are drawbacks if we do not develop our own training team. All prestigious brands have put significant resources into their in-house training programmes. But we can think about it. I have another issue which is more important - how commission is calculated. In all our personal-care stores, we pay commission on store-based sales but should we change to an individual-based commission system for the beauty advisers?"

- (a) Suggest three personal factors that affect consumers when choosing personal grooming products. (6 marks)
- (b) Explain three reasons behind outsourcing the training function of the beauty advisers to a third party. (6 marks)
- (c) Explain two drawbacks of this plan. (4 marks)
- (d) Discuss two advantages and two disadvantages of an individual-based commission system for the beauty advisers. (8 marks)

(Total: 24 marks)

Mock #2

8. Anna Hui started a small cake shop a few years ago to share her love for baking. She uses the finest ingredients and responds well to customer preferences. Her signature products include cookies, cupcakes and custom-made birthday cakes. With the capital injection of some new investors, she has expanded the cake shop to six branches and the outlook for the business is promising.

However, recently there have been a few internal issues that seem out of Anna's control. First of all, there is dissatisfaction among her shop assistants. In order to deploy manpower flexibly, Anna has recruited many part-timers to be shop assistants in newly-opened shops. Full-time shop assistants complain that the part-timers often damage the cakes or cookies because they do not handle them with care. Moreover, they do not communicate with customers well, especially when taking custom-made orders. As a result, customers are dissatisfied with their orders and make complaints and, obviously, these part-timers do not have the skills to handle and recover the service. At the same time, full-time staff have to meet the company sales quota but the part-timers do not.

Low morale in the shops leads to another issue. Anna has been mainly relying on the shop assistants to promote new products to customers and this method has proven to be very effective. Now the shop assistants feel that they are not obliged to sell new products. Anna has to figure out new ways to promote her products.

Since Anna has to allocate additional resources for promotion, she plans to tighten the inventory policy by adopting Economic Order Quantity (EOQ). Information on one of the key ingredients, fresh cream, is provided for analysis:

Demand for fresh cream per week: 170kg
Price of fresh cream per kg: \$81
Carrying cost of fresh cream per kg per week: \$5
Cost of placing an order: \$13
Transport and handling costs per order: \$55

- (a) Explain the reasons for the full-time staff dissatisfaction with reference to a motivation theory. (4 marks)
- (b) What could Anna do to motivate the staff according to the theory suggested above? Explain four ways. (8 marks)
- (c) Apart from offering discounts, suggest how Anna could promote the cake shop within a stringent budget. (8 marks)
- (d) Explain how the adoption of EOQ can help to lower inventory costs. (3 marks)
- (e) Calculate the EOQ for the fresh cream. (3 marks)

(Total: 26 marks)

Section C

Answer *ONE* question in this section.

9. (a) Explain the process of new product development with the example of a fast food restaurant chain. (12 marks)
- (b) Suggest how you could foster a culture of innovation in a company using its motivation and reward policy. (8 marks)

(Total: 20 marks)

10. An estate developer is going to invest in the mainland and build a large-scale private housing estate in Shanghai.
- (a) Illustrate the types of risks anticipated by the developer in doing business in the mainland. (12 marks)
- (b) Explain the suitable sources of financing for the project. (8 marks)

(Total: 20 marks)

END OF PAPER

Section A

Muji exam #2

1.
 - The use of debt financing to amplify the effects on operating income.
 - It helps to increase the return of shareholders without injecting further investment in the company. (2 marks each, max 4 marks)
2.
 - Liability insurance for tourists
 - Pecuniary insurance - Business interruption
 - Property insurance (2 marks each, max 6 marks)
3.
 - Undifferentiated marketing - general public
 - Differentiated marketing - tours for families, adventure tours for youngsters
 - Concentrated marketing - photo-shooting tours for young couples (2 marks each, max 6 marks)
4. Positioning refers to the process by which a company creates an image for its product, and then projects this image in the minds of its target consumers. (2 marks)

Reference:

Refer to book 3 (a) Financial Management; Section 1.7

Reference:

Refer to book 3 (a) Financial Management; Section 6.3

Reference:

Refer to book 3 (c) Marketing Management; Section 4.1.2

For example, Muji positions its products as pure, natural and simple. As such, no labels are found on Muji products. (2 marks)

5.
 - Attract and retain employees
 - Meet social responsibility
 - Foster a caring culture (2 marks each, max 6 marks)
6.
 - Decrease expenses in machinery which leads to a decrease in fixed costs
 - Decrease the tenure of full-time staff and replace by part-time staff (2 marks each, max 4 marks)

Reference:

Refer to book 3 (b) Human Resources Management; Section 4.5

Section B

7. (a)
 - Age and Stage in family life cycle
 - Occupation and economic circumstances
 - Lifestyle
 - Personality and self concept (2 marks each, max 6 marks)
- (b)
 - Make use of the expert knowledge of the outside make-up professional
 - Lower operating cost than an in-house training program
 - Devote resources to other areas that cannot be outsourced (2 marks each, max 6 marks)

Reference:

Refer to book 3 (c) Marketing Management; Section 3.4.4

Reference:

Refer to book 3 (b) Human Resources Management; Section 5.2

A company needs to build a position for its product because:

- Good positioning helps a company differentiate its products from competing ones.
- Good positioning guides the company in formulating its marketing strategies.
- Good positioning helps target consumers recall the product easily.

Reference:

Refer to book 3 (b) Human Resources Management; Section 5.2

- (c) • Training in service industry has strategic importance because it helps to build up competitive advantages and therefore should be remained in hands of the company.
- In case the performance of the outside party do not meet the standard of the company, the company will have to find a new make-up professional. As a result, the training program would not be consistent. (2 marks each, max 4 marks)

Reference:

Refer to book 3 (b) Human Resources Management; Section 4.2.2

- (d) Advantages:
- Higher motivation to work
 - Seem fair and objective (2 marks each, max 4 marks)

Disadvantages:

- The beauty advisers may have rivalry among themselves and may not work cooperatively.
- They will neglect duties other than selling because these duties would not earn them commission. (2 marks each, max 4 marks)

(Total: 24 marks)

Reference:

Refer to book 3 (b) Human Resources Management; Section 7.1.2

8. (a) Motivation theory
- Adam's Equity Theory - Employees usually compare themselves to others and want to have the same ratio of rewards (such as pay, promotions, or praise) to contributions (such as effort or skill).
 - The full-time staff believe that the part-timers do not contribute much effort nor possess much skills, however they are both treated in a very similar way by the company. (2 marks each, max 4 marks)

Reference:

Refer to book 3 (b) Human Resources Management; Section 7.1.2

- (b) Methods to motivate Anna's staff:
- Maintain a fair system of performance review for both full-time and part-time staff, and evaluate the system frequently
 - Reward staff according to a consistent reward policy - e.g. could reflect both their performance or seniority
 - Encourage team work and cooperation
 - A proper training program is needed for all part-timers to ensure consistent (2 marks each, max 8 marks)

Reference:

Refer to book 3 (c) Marketing Management; Section 4.3.4

- (c) Promotion mix:
- Advertising - magazines that fit the target segments, paid search advertising in portal websites
 - Sales promotion - premiums, frequency programs, coupons
 - Public relations - arranged media coverage, cookbook by Anna
 - Personal selling - commission or bonus for sales assistants (2 marks each, max 8 marks)

Reference:

Refer to book 3 (a) Financial Management; Section 5.7.2

- (d) EOQ represents the order size that minimizes total annual inventory holding and ordering costs. The EOQ is based upon finding the best economic balance between the cost of maintaining inventory levels and the cost of ordering again and again. (3 marks)

Reference:

Refer to book 3 (a) Financial Management; Section 5.7.2

- (e) $EOQ = \sqrt{2DS/H} = \sqrt{2 \times 170 \times (13 + 55) / 5} = 68\text{kg}$ (3 marks)

(Total: 26 marks)



Section C

9. (a)
- Idea generation and screening - ideas from internal staff such as executive chefs, external parties like competitors or consumers
 - Concept development and testing - concept presented in pictures and description, preliminary taste testing
 - Business analysis - cost-and-benefit analysis
 - Prototype development - planning to prepare and cook the new dish in large scale and secure supply chain
 - Market testing - invite consumers to try the new dish
 - Commercialisation - choose the right time, price and promote the new dish (2 marks each, max 12 marks)

Reference:

Refer to book 3 (c)
Marketing Management;
Section 4.3.1

- (b)
- Encourage teamwork and collaborative work design
 - Reward those whose work is innovative and brings value to customers
 - Motivate staff with challenging tasks
 - Respect their innovative work and give credit to them (2 marks each, max 8 marks)

Reference:

Refer to book 3 (b) Human
Resources Management;
Section 7.1.1

10. (a) Risks faced by an estate developer in mainland:
- Legal liability risk - those work on the site could be injured, or the lives of residents live in the estate could be threatened if the structure safety of the building is poor
 - Property risk - loss of property due to theft or fire
 - Production risk - Finding an incapable contractor who cannot finish the project on time and meet quality standard
 - Market risk - loss deal to change in market demand
 - Political risk - change of government policies and regulations
 - Business interruption risk - construction and selling activities hindered by unforeseeable events (2 marks each, max 12 marks)

Reference:

Refer to book 3 (a) Financial
Management; Section 6.2.2

- (b) Sources of financing for the developer in the project:

Debt financing:

- Term loans or syndicated loans
- Bonds (2 marks each, max 4 marks)

Equity financing:

- Issue ordinary shares or preference share
- Private placement
- Rights issue
- Warrant (2 marks each, max 4 marks)

Reference:

Refer to book 3 (a) Financial
Management; Section 3.3,3.4