

South Tuen Mun Government Secondary School
Business, Accounting and Financial Studies
Mock Paper #7 (Management Module)

Name: _____

Class: _____ ()

Section A

Answer *ALL* questions in this section.

1. Explain two reasons why referral is a common recruitment method for small business. (4 marks)
2. Suggest two possible problems of using psychological tests as a selection method. (4 marks)
3. How would a tight inventory policy affect the operations of a retail store? Explain two of them. (4 marks)
4. Suggest three situations that adopting customer relationship management might not be appropriate. (6 marks)
5. Explain three ratios that are suitable for explaining the reasons for low profitability of a company. (6 marks)
6. Suggest three ways that a consumer good products company could response to the rising demand from the customers of being more environmentally friendly. (6 marks)

Section B

Answer *ALL* questions in this section.

7. Wah Wai is a medium-sized travel agency organising outbound tours to China and other Asian countries. Since there is a growing number of consumers prefer to travel by themselves and resist the idea of packaged tours, the business of Wah Wai is stagnant recently. Alan Cheung, the owner, wants to see if there are other possible opportunities in the market. In a meeting, he asks, 'Could we think about "accessible travel"? In other developed countries, they have packaged tours for people of physical disabilities. I am sure that they want to travel overseas but it is really difficult for them to get around. If we study their need carefully, we could plan some packaged tours for them.'

Becky Wong, the tour planning manager replies, 'This is a good idea but we should conduct a marketing research to study the market need first. How about using online survey to collect information? It is commonly used nowadays.' Alan replies, 'Are you sure this is good? I have some reservations for this.'

Operation manager Clement Tang raises another issue, 'In order to be fair and objective, I suggest to include customers' complaint and compliments in the performance appraisal of our tour guides. After all, our supervisors do not really know how they perform in front of our guests.'

- (a) Suggest four criteria of market segmentation for Wah Wai in launching accessible travel for disabilities. (8 marks)
- (b) Identify two advantages and two limitations in using online survey to collect information about accessible travel for Wah Wai. (8 marks)
- (c) Explain two advantages and two disadvantages in including customer complaints and compliments as one of the measurements in performance appraisal of tour guides. (8 marks)

(Total: 24 marks)

8. Kong Yan Tong is a private-owned chain store selling traditional Chinese herbal tea, health drinks, soup and snacks. It has about 70 stores in Hong Kong, mainly located among the MTR subway network and housing estates. Other than retail stores, it also has lines of bottled health drinks selling in supermarkets and convenient stores. Seeing that the local market is nearly saturated, Kong Yan Tong is planning to expand its business in the Mainland. The management is considering two options. The first one is to expand its retail chain in area of Guangdong province. This costs more but would help to build up its brand in the future. The second option is to sell bottled health drinks through distributors in the Mainland. This helps to spread its brand to the inner parts of China in a shorter period of time.

In a board meeting, Eva Tsang, the financial controller presents the projection of the cash inflows and outflows for the two projects.

Year	Option 1 (in HK\$m)	Option 2 (in HK\$m)
Initial investment	18.00	8.00
1	0.50	1.50
2	3.00	3.00
3	6.00	4.00
4	11.00	5.00

Eva comments, 'We need to be careful in our decision because this would bring us great impact in the coming years. I wonder whether we should use profits as our only concern in the decision. At the same time, we might need to raise fund for the project instead of using our internal reserves.'



The Managing Director, Thomas Kong says, 'Expanding to the Mainland is an important strategic move for us. Either option will expose us to different types of risks. We'd better strengthen our risk management process.'

- (a) Assuming the discount rate is 10%, calculate the net present value (NPV) of two projects (two decimal places). Which project should Kong Yan Tong adopt? Why? (6 marks)
- (b) Apart from profits, analyse four factors that should also be considered in the choice of expansion strategy. (8 marks)
- (c) Give two reasons why Eva suggests to raise fund for the project instead of using our internal reserves'. (4 marks)
- (d) Explain the risk management process for Kong Yan Tong if option one is chosen. (8 marks)

(Total: 26 marks)

Section C

Answer *ONE* question in this section.

9. (a) Briefly explain the Vroom's Expectancy Theory. (6 marks)
- (b) How would you design a reward system using the Vroom's Expectancy Theory for the sales staff of a retail fashion chain? (14 marks)
- (Total: 20 marks)*
10. A Chinese restaurant chain wants to expand its business to Mainland China. It is considering the following methods of market entry: direct investment, joint venture, and franchising. Discuss the various criteria the restaurant chain should use to evaluate these methods. (20 marks)

END OF PAPER

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Section A

- 1.
- Low costs or even free
 - The applicant would understand the culture better (2 marks each)
- 2.
- Psychological tests are statistically accurate up to a certain confidence level only. Applicants' characters might not be able to reflect truly in these tests.
 - Apart from applicants' characters, work experience could be more important. (2 marks each)
- 3.
- There could be stockout and loss of sales.
 - The pressure to make accurate sales forecast would be very high. (2 marks each)
- 4.
- Customers would only buy the products few times in their lifetime, e.g. Wedding gowns.
 - Convenience is the most important criterion in product choice, rather than brand preference.
 - The costs of retaining existing customers are higher than attracting new ones. (2 marks each)
- 5.
- Average collection period - a high ratio means that the company has difficulties in collecting its accounts receivables.
 - Inventory turnover - a low ratio means that the company has too much inventory that tied up capital.
 - Fixed assets turnover - a low ratio means that the company is unable to make efficient use of its fixed assets to generate revenue. (2 marks each)
- 6.
- Substitute the materials used in plastic bottles to recycled materials.
 - Launch refill packets
 - Avoid animal testing (2 marks each)

Reference:
Refer to book 3 (b) Human Resources Management; Section 2.3.3

Reference:
Refer to book 3 (b) Human Resources Management; Section 2.4.3

Reference:
Refer to book 3 (a) Financial Management; Section 5.7

Reference:
Refer to book 3(c) Marketing Management; Section 5.3

Reference:
Refer to book 3 (a) Financial Management; Section 1.6

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

Section B

- 7.
- (a)
- Differentiable
 - Substantial
 - Measurable
 - Accessible
 - Actionable
- (2 marks each, max. 8 marks)

Reference:
Refer to book 3 (c) Marketing Management; Section 4.1

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Reference:
Refer to book 3(c)
Marketing Management;
Section 2.3.2

(b) Advantages:

- Could collect plenty of information within a short period of time
 - Lower costs compared with personal interviews or focus group interviews
- (2 marks each)

Limitations:

- Need to have email addresses of the disabilities
 - Respondents may let other people finish the questionnaire
 - Respondents may quit the survey before finishing all the questions
- (2 marks each)

Reference:
Refer to book 3(b) Human
Resources Management;
Section 3.2

(c) Advantages:

- Include a different angle other than supervisors' point of view
 - Tour guides' performance strongly affects customer satisfaction level and eventually leads to company performance
- (2 marks each)

Disadvantages:

- Chinese customers seldom praise service personnel, but would make complaints more often
 - Tour guides might bribe customers in order to obtain compliments, which could affect the objectivity of the performance appraisal
- (2 marks each)

(Total: 24 marks)

8.

Reference:
Refer to book 3 (a) Financial
Management; Section 4.1.2

(a)

- Option 1
$$NPV = 0.5/1.1 + 3/1.21 + 6/1.331 + 11/1.4641 - 18 = (3.05m) \quad (2 \text{ marks})$$
- Option 2
$$NPV = 1.5/1.1 + 3/1.21 + 4/1.331 + 5/1.4641 - 8 = 2.26m \quad (2 \text{ marks})$$

The NPV of option 1 is negative (-3.05m), meaning that this would bring Kong Yan Tong loss. Therefore, Kong Yan Tong should adopt option 2 based on capital budgeting analysis (1 mark). However, profit is not only one of the criteria in making the expansion decision, therefore the management should consider other factors at the same time. (1 mark)

Reference:
Refer to book 3 (a) Financial
Management; Section 4.7

(b)

- Risks – Higher risks associated with option 1
 - Strategic development – option 1 would be more beneficial to the long-term development of Kong Yan Tong
 - Cultural differences – Consumers in the northern or inner part of the Mainland may not like the Cantonese herbal tea
 - Different internal resources requirement – option 1 would impose higher pressure on human resources and operations management
- (2 marks each)

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(c)

- Kong Yan Tong could obtain faster growth with external funding
- It would be easier to manage the cash flow

(2 marks each)

Reference:

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

(d)

- Identify risks associated with the China market, e.g. market risk
- Assess the frequency and severity of risks
- Choose appropriate risk management strategies
- Implement and follow-up programs

(2 marks for each step)

Reference:

Refer to book 3 (a) Financial Management; Section 6.1.4

(Total: 26 marks)

Section C

9.

(a) Brief explanation of the Vroom's Expectancy Theory:

- Goal set for employees should be attainable
- Achievement should lead to appropriate rewards
- Rewards should be what employees like (2 marks each)

Reference:

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

(b) Reward system based using Vroom's Expectancy Theory:

- Rewards – there should be various kinds of rewards to motivate the sales staff. Both monetary (e.g. commission, salary) and non-monetary (e.g. praise, promotion, respect) rewards are important because they could have different needs and personal objectives.
- Objectives setting – Supervisors should set performance objectives according to employees' ability. The objectives should be challenging enough for the sales staff but still attainable. Supervisors should communicate with them and explain thoroughly what are expected from them.
- Training programmes – employees should be equipped with adequate skills to complete the task assigned to them. Well-designed training programmes are regarded as recognition.
- Performance appraisal – the appraisal system should be able to measure employees' performance accurately. The appraisers need to be trained and the appraisal results should be discussed with employees.
- Fair and objective system – the reward system should be fair and objective. Only those employees who could achieve the objectives are rewarded accordingly.
- Career planning – a clear career path can definitely help the sales staff to develop their own goals and plan for their future in the company. (3 marks each, max. 14 marks)

(Total: 20 marks)

Mark #7

10.

Reference:

Refer to book 1 (a) Business Environment; Chapter 2

	Direct Investment	Joint Venture	Franchising
Time required	Longest time required to set up the restaurant.	The local partner will help to get through the bureaucracy and therefore shorten the time for setup.	It would take time for establishing the franchising system.
Capital needed	Highest	Share with the local partner	Local franchisees will have to pay startup fee
Familiarity of local environment	The chain has to analyse the environment all by itself	The local partner could help the chain to understand the local environment	The franchisees will suggest how to adjust to the local environment
Risk involved	The chain could suffer great loss since there is no partners to share	The risk is shared with the local partner	Image could be damaged if the franchisees do not oblige the rules
Management control	Maintain full control	Management conflict between partners	Easier to control the hardware such as deco and menu items, but more difficult to control the software like service quality.
Protection of technical know-how	Best protection	There could be leakage to local partner and create a competitor in the future	The least protection, unless major items are prepared in central kitchens owned by the chain.