

LEADING EDGE BUSINESS STUDIES TRIAL HSC ANSWERS

MULTIPLE CHOICE QUESTIONS

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|------|-------|-------|-------|
| 1) A | 6) B | 11) B | 16) D |
| 2) A | 7) D | 12) B | 17) A |
| 3) C | 8) C | 13) D | 18) C |
| 4) D | 9) A | 14) A | 19) D |
| 5) C | 10) C | 15) B | 20) D |

SHORT ANSWER QUESTIONS

Question 21

(10 marks)

Beatable Ltd. which makes Mini Museo, a small portable MP3 player, develops a new and innovative product which leads the market in terms of design and features. The new product is called A-Muse.

- a) Determine and justify the appropriate pricing strategy for the A-Muse product (3 marks)
- b) State the effects of the pricing strategy chosen on customer choices (2 marks)
- c) Design a promotional strategy for this product (5 marks)

Answers

- a) The appropriate pricing strategy for a new product like A-Muse which is both innovative and a market leader in terms of design and features would be price skimming or market skimming price. This strategy should be applied as the cost incurred in research and development (R & D) need to be covered. Moreover, it can also be justified on the basis of what this new product offers to consumers.
- b) Consumers seek to trade off price and quality - that is, the lower the price, the lower the quality expected. In the case of the A-Muse the quality is very high - therefore consumers would expect to pay a high price. Over time prices may fall. Despite the high price consumer choice will not be significantly affected as most consumers can currently purchase an MP3 player, and the ones that can afford an upper range model would not find the A-Muse too expensive.
- c) A promotional strategy would be framed around a mix of the following:
- Personal selling, advertising, below-the-line promotions and public relations
 - The use of opinion leaders and word of mouth communication

All answers should integrate the stimulus - thus strategies should be written as follows: Mini Museo products like the A-Muse could be sold through a combination of personal selling (such as the used of trained sales people in large shopping complexes showing people on special display stands the features of the product), mass media advertising (through the use of newspaper, television, internet based and billboard advertising. Mini Museo would find this an expensive option but for the position of the product it would be financially worthwhile), below-the-line promotions (through offering a free safety pouch, speakers or rechargeable battery for the A-Muse) and public relations (through sponsoring some high profile sporting events or community events). Mini Museo could also utilise opinion leaders, like Pink, Bernard Fanning and others who emphasise the high quality sound and features of the A-Muse.

Question 22**(10 marks)**

An Australian furniture manufacturer called KingSit Ltd. has a well known global brand. They sell under license to 6 Latin American countries, 5 South East Asian nations and 8 countries in the European Union. A Mexican human rights group called Labour Watch has recently achieved world headlines claiming that KingSit treat employees badly, have allegations against them of numerous human rights abuses and may have been involved in the 'disappearance' of two union leaders. A former manager, who left because he was unhappy with how employees were treated, has also called for changes in the business.

- a) Define what is meant by the term 'global consumer' (2 marks)
- b) Explain the ONE benefit and ONE drawback of having a global brand (2 marks)
- c) Evaluate the effectiveness of KingSit's employment relations and recommend THREE management strategies to assist this business (6 marks)

Answers

- a) A global consumer is a purchaser who will seek and buy global brands. For example, buyers who seek global brands such as "Coke", 'Nike', 'Subway', 'Sony' or 'Dell', because these products carry a particular image around the world, are global consumers.
- b) One benefit of having a global brand is that the product is highly identifiable and sought in many markets. Another benefit is that the brand rather than the product can be promoted thus making marketing much more simple. A drawback is that the business will be associated with the brand name, and any negative publicity anywhere could significantly affect sales everywhere.
- c) KingSit's employment relations effectiveness is found wanting in several key areas: quality (of employment practices), turnover, working conditions, ethical practice with respect to labour. Clearly, when independent bodies deem the business to have breached human rights then the business has issues.

Three strategies can be drawn from any three of the following:

- Improved and appropriate communications systems including grievance procedures, worker participation and team briefings. KingSit can formalise and initiate inclusive communications systems so that employee concerns can both be validated and taken seriously. Such systems which include the formal written grievance processes, as well as a focus on worker participation through teamwork and team briefings could assist KingSit to improve its effectiveness.
- Improved rewards - both financial and non-financial. KingSit can consider a range of financial (monetary) and non-financial (non-monetary) rewards. These rewards could be tied to performance so that the business success is tied to the personal success of employees. This nexus could lead to improved quality of processes and product.
- A focus on flexibility (including family friendly programs, quality and benchmarking). KingSit can apply behavioural management theories in order to enable multi skilling and focus on flexibility, psychological safety and inclusion and quality work processes. These things together should lead to improved labour outcomes and give the chance to benchmark - that is, set industry standards.
- A focus on training and development. KingSit can emphasise and apply well staged and well considered training and development programs which increase employee work skills and provide added value to the business for the investment in 'human' capital. This could reduce employee turnover.

Note that KingSit need to address the serious concerns raised by the allegations made and that any change they implement must integrate a focus on overcoming the negative publicity and addressing any shortfalls in behaviour by managers and supervisors. Otherwise the above strategies will have little or no effect.

Question 23

(10 marks)

Financial information for Merlo's Jewellers P/L.

\$m	
Sales	2.0
CoGS	0.5
Gross Profit	1.5
Expenses	1.4
Net Profit	0.1

Additional Information for the Jewellery Industry: GPR: 60%; NPR: 14%

- a) Name the statement this information would be found in (1 mark)
- b) Determine and comment on the Gross Profit Ratio (GPR) and the Net Profit Ratio (NPR) for Merlo's (4 marks)
- c) Given that the depreciation expense for Merlo's was \$0.7m and the wages \$0.5m suggest TWO strategies that could be applied by managers to improve profitability for Merlo's (5 marks)

Answers

- a) This information would be found in the revenue statement.
- b) The Gross Profit Ratio (GPR) is $\text{Gross Profit}/\text{Sales} \times 100/1$. That is, $\$1.5\text{m}/\$2.0\text{m} \times 100\% = 75\%$
- This is a high ratio and means that for every \$1 brought in as revenue 75 cents is returned as the contribution over and above costs. The industry average is 60% so Merlo's is doing very well comparatively.
- The Net Profit Ratio (NPR) is $\text{Net Profit}/\text{Sales} \times 100/1$. That is, $\$0.1\text{m}/\$2.0\text{m} \times 100\% = 5\%$
- This is quite a low ratio and means that for every \$1 earned as revenue 5 cents is returned as profit once all cost have been considered. The industry average is 14% thus Merlo's are well below the industry average and may be experiencing much higher costs/expenses.
- c) Both the depreciation and the wages are expenses which would reduce the net profit. Merlo's may need to sell some assets and lease back in order to both have lower depreciation expenses and keep equipment up to date (not falling in value rapidly as it gets superseded). In terms of wages, Merlo's could reduce the size of its full time and part time permanent labour force and replace them with a casual labour force. In the short term this could create higher once of costs due to redundancy but there will be on-going cost savings. Some of the redundancy costs could be met with asset sales.

Question 24

(10 marks)

Sterling P/L are an importer of silver cutlery. The world price of silver fluctuates, which impacts directly on Sterling P/L.

- a) Describe THREE methods of payment, and their associated risk, which may be applied by Sterling P/L when importing (6 marks)
- b) Explain how Sterling P/L can applying TWO hedging instruments to reduce the risk associated with international trade (4 marks)

Answers

- a) The three methods of payment are: prepayment, documentary collection and selling on open account (these methods may have other names as well). Prepayment occurs when Sterling pay for the imports prior to them leaving the exporter. This is a high risk for Sterling. Documentary collection is characterised by Sterling releasing funds once there is documentary evidence of shipment of their goods from the exporter's port (ie the goods are in transit when the money is transferred from the importer's bank to the exporter's bank). The risk here is shared. Selling on open account involves the exporter allowing the importer to pay after receipt of the goods. The risk here lies with the exporter.
- b) Two hedging instruments include any two of derivatives such as futures, options and swaps

Futures could be used in order to minimise the risk associated with international transactions. Sterling could take out futures which either fix the future exchange rate at the present spot rate (if they anticipate that there will be a currency depreciation which will make the cost of imports more expensive). Alternatively they could estimate the future exchange rate and fix the rate at that anticipated level, hoping that they have correctly offset the losses that would have been incurred had they not anticipated this future rate.

Sterling could also take out options which are a type of future which allows the business to default to (opt for) the spot rate which applies in the future if the rate they anticipated is not realised - meaning that an exchange would lead to higher costs that could be incurred using the spot rate.

Finally, Sterling could use currency swaps in order to obtain another nation's currency. The idea here would be to exchange at a time when the rate is favourable, in anticipation of the domestic currency falling later. The effect of the swap would then be to offset future costs or losses.