

HONG KONG EXAMINATIONS AND ASSESSMENT AUTHORITY  
HONG KONG DIPLOMA OF SECONDARY EDUCATION EXAMINATION 2014

**BUSINESS, ACCOUNTING AND FINANCIAL STUDIES PAPER 2B**  
**Business Management Module**

10.30 am – 12.45 pm (2 hours 15 minutes)

This paper must be answered in English

**INSTRUCTIONS**

- (1) There are three sections in this paper.
- (2) All questions in Sections A and B are compulsory. You are required to answer one of the two questions in Section C.
- (3) Write your answers in the answer book. Start **each** question (not part of a question) on a **new page**.

Not to be taken away before the  
end of the examination session

**SECTION A (24 marks)**

Answer **ALL** questions in this section.

1. Explain two types of insurance that a restaurant should take out. (4 marks)
  
2. (a) With a diagram, 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 product. Show your calculations. (2 marks)
  
3. Briefly explain the three basic elements of Vroom's Expectancy Theory. (6 marks)
  
4. Briefly describe three sampling techniques that can be used in marketing research. (6 marks)
  
5. Describe two differences between the skimming pricing strategy and the penetration pricing strategy when launching a new product. (4 marks)

**SECTION B (36 marks)**

Answer **ALL** questions in this section.

6. Grassland is a major wholesaler in Hong Kong which sells bedding products to department stores and specialty stores.

At a regular meeting, Ricky, the Marketing Manager, said, ‘Since we are facing keen competition and aggressive competitors, we have to put in more effort to keep a close and long-term relationship with retailers so that our business can be maintained. We should devise some measures to encourage retailers to carry more of our products. It is equally important to improve and increase the variety of our products. But this depends on whether our merchandisers can source high-quality suppliers and negotiate the best possible terms with them.’

Steven, the Human Resources Manager, responded, ‘We may have to change our existing policy of across-the-board salary increment for all merchandisers. To motivate them to perform better, we may consider linking the increment with their individual performance. We would then have to keep track of their performance, but the existing performance appraisal does not have a formal procedure for this. We need to set up a formal performance appraisal system to assess their individual performance more accurately. At the same time, we should provide them with specific training and development programmes to equip them with better sourcing and negotiation skills.’

Thompson, the Finance Manager, said, ‘We will need extra funds for the training programme and the development of the performance appraisal system. The recent financial report reveals that our cash position is tight. I think there are some problems with our cash conversion cycle and we must improve our cash flows by managing the working capital more effectively.’

- (a) Apart from maintaining a good relationship with retailers, suggest two ways in which Grassland can encourage retailers to carry more of its products. (4 marks)
- (b) Explain two performance appraisal methods that can be adopted by Grassland to assess the performance of the merchandisers. (4 marks)
- (c) Grassland has identified the training needs of its merchandisers. Describe three of the remaining steps that it should take in the training process. (6 marks)
- (d) From the perspective of working capital management, suggest two ways in which Grassland can improve its cash flows. (4 marks)

(Total: 18 marks)

7. 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)
- (b) Apart from lower cost, explain two benefits to the budget airline of adopting e-marketing strategies. (4 marks)
- (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)
- (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)

(Total: 18 marks)

**SECTION C (20 marks)**

Answer **ONE** question in this section.

8. The retail industry in Hong Kong has been facing many challenges, including a shortage of salespersons and rising rentals.
- (a) With reference to four human resources management functions, suggest ways in which a jewellery retail chain can cope with the shortage of salespersons. (10 marks)
- (b) The jewellery retail chain is going to open a new shop. It is considering whether to buy or rent the shop premises. Describe the various capital investment appraisal methods that can be used to evaluate this decision. (10 marks)
- (Total: 20 marks)
9. The market for beauty and skin care services in Hong Kong is expanding but there are also a lot of customer complaints. Consumers are becoming more careful when buying beauty and skin care services. Beauty centres have to pay more attention to the rights of consumers.
- (a) Using the purchase of beauty and skin care services as an example, describe the steps in the consumer buying decision process. (10 marks)
- (b) Explain how a beauty centre could satisfy its customers with respect to four consumer rights. (10 marks)
- (Total: 20 marks)

**END OF PAPER**