

**SECTION A (24 marks, weighting 30%)**

Answer **ALL** questions in this section.

1. Explain three objectives for an insurance company to conduct performance appraisal for its insurance agents. (6 marks)
  
2. An ice cream manufacturer uses 1 200 cartons of milk each month. The average holding cost per carton of milk is \$25 per month and the ordering cost is \$600 per order.
  - (a) Calculate the Economic Order Quantity of milk. (2 marks)
  - (b) Apart from the daily usage, explain two other variables involved in the determination of the re-order level of milk. (4 marks)
  
3.
  - (a) Explain the meaning of 'personal selling' in a marketing mix strategy. (2 marks)
  - (b) Describe two advantages to a computer company of using personal selling to sell its software. (4 marks)
  
4. A firm sells high-end cameras which are limited in quantity. Its target customer group is professional photographers. Recently, the firm has experienced an unfavourable sales-volume variance.
  - (a) Which type of target marketing strategy is the firm adopting? State one disadvantage of adopting this strategy. (2 marks)
  - (b) Explain two possible causes of the above sales-volume variance. (4 marks)

**SECTION B (18 marks, weighting 45%)**

Answer ONE question in this section.

5. Sara Company is a well-known manufacturer of children's clothing, with more than 10 retail outlets in Hong Kong. Recently, it has been planning to expand its business by manufacturing and selling toy cars.

At a regular meeting, the Marketing Manager suggested doing marketing research using stratified random sampling to better understand the preference of parents before designing the toy cars. The Chief Executive Officer agreed and remarked that the initial selling price of the toy cars should be lower than that of its competitors.

As toy-car manufacturing is new to the company, the Chief Executive Officer emphasised that the selection of materials and the design of the toy cars must be done carefully. He was a bit worried about the safety issues associated with the toy cars and wondered whether the risks could be transferred to a third party by taking out insurance.

The Human Resources Manager raised a concern about the morale of the salespeople. According to the employee survey results of the company, the salespeople were dissatisfied with the laissez-faire leadership style of their supervisors. They complained that they frequently had to handle tasks beyond their job scope and were disappointed that only certificates had been given for good performance. The Chief Executive Officer believed that the salespeople belonged to the Theory X type and urged the Human Resources Manager to find ways to improve their morale.

Finally, the Chief Executive Officer proposed setting up an e-shop to sell the products. He asked the Finance Manager to evaluate whether this project was worth investing in. The Finance Manager estimated that the e-shop would initially cost \$3.5 million and would generate \$1 million of cash flows bi-annually in the coming two years.

- (a) (i) Illustrate how Sara Company could use stratified random sampling to collect data. (2 marks)
- (ii) Other than stratified random sampling, suggest one other sampling technique that Sara Company could use to collect data. (2 marks)
- (b) State the pricing strategy of the new toy cars suggested by the Chief Executive Officer and explain the objective of adopting this strategy. (2 marks)
- (c) Explain one type of insurance Sara Company should take out to deal with the risks mentioned by the Chief Executive Officer. (2 marks)
- (d) With reference to the characteristics of Theory X employees, suggest two ways to improve the morale of the salespeople. (4 marks)
- (e) (i) If the cost of capital is 8% per annum, calculate the net present value (to the nearest dollar) of the e-shop project. (2 marks)
- (ii) From the perspective of key business functions, explain two types of non-financial factors that Sara Company should consider when setting up the e-shop. (4 marks)

(Total: 18 marks)



6. Tasty Company sells cookware. One of its popular products is an electronic cooking plate which has various functions including hotpot, making pancakes and grilling meats. In view of the steady growth in annual sales, Andy, the General Manager, is planning to open a flagship store in Tsim Sha Tsui in late 2021.

A management meeting was called to discuss the plan. The financial information for 2020 is shown below:

	\$ million
Annual sales	170
Total operating costs	45
Total capital	50
Total liabilities	16

Andy said, 'I am happy to see the high net profit ratios in recent years. I believe that the opening of the flagship store will bring us promising returns in the future.'

Peter, the Finance Manager, added, 'Our total assets turnover for 2018 and 2019 was 2.4 times and 2.5 times respectively, which was higher than the industry average. We will report the total assets turnover for 2020 in the next meeting. However, because of the opening of the flagship store, the total assets turnover for 2021 will probably drop. Also, it is estimated that the payback period of the flagship store investment project is three years.'

Andy said, 'We can take out a 1-year bank loan to finance the project.'

Peter responded, 'From the financial perspective, I would suggest sourcing the funds in other ways.'

Susan, the Marketing Manager, said, 'Our major customers are young ladies who always browse the Internet to get information. To reduce costs, it's a good idea to adopt e-marketing by cooperating with key opinion leaders (KOLs) on different social media platforms.'

Lucy, the Human Resources Manager, was concerned about the workload of the management team. She said, 'I propose promoting one of the branch managers to senior manager to lead the operations of the flagship store.'

Andy replied, 'I think we should source suitable candidates for the post of senior manager via headhunters instead.'

- (a) (i) Calculate the total assets turnover (to two decimal places) for 2020. (2 marks)
- (ii) Why would the total assets turnover for 2021 probably drop? (2 marks)
- (b) Give two reasons to support Peter's suggestion of sourcing the funds in ways other than taking out a 1-year bank loan. (4 marks)
- (c) Apart from reducing costs, explain two other benefits to Tasty Company if the e-marketing strategy suggested by Susan is adopted. (4 marks)
- (d) Explain two disadvantages of recruiting the senior manager externally instead of promotion-from-within. (4 marks)
- (e) Give one advantage of recruiting the senior manager via a headhunter. (2 marks)

(Total: 18 marks)

**SECTION C (20 marks, weighting 25%)**

Answer **ONE** question in this section.

7. Sunshine Fitness operates many fitness centres in Hong Kong and hires a large number of trainers. In view of the recent economic downturn, the company is finding ways to deal with the surplus of trainers, and enhance its customer relationship management.

- (a) With reference to human resources management functions, suggest ways in which Sunshine Fitness can deal with the surplus of trainers. (12 marks)
- (b) Illustrate with examples how Sunshine Fitness could achieve the objectives of customer relationship management. (8 marks)

(Total: 20 marks)

8. Starry Company sells audio-visual equipment locally through its own website and mobile application. Because of increasing popularity of its products, the company is considering establishing its own physical stores or expanding the sales channels to include a large electrical appliances retail chain in Hong Kong. It is going to apply for a long-term bank loan for the business expansion.

- (a) Explain the factors that Starry Company should consider when deciding whether to establish its own physical stores or expand the sales channels to include a large retail chain. (12 marks)
- (b) What should the bank consider when assessing the credit standard of Starry Company before approving the loan? (8 marks)

(Total: 20 marks)

**END OF PAPER**