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marketing concept

Explain what 'marketing concept' means. (2 marks) 2018

Marketing concept: 2

- analyse customers' needs and take appropriate measures to satisfy those needs in order to make profit
- deliver the desired satisfaction more effectively and efficiently than its competitors

(ii) Explain with an example how the marketing concept could be applied to the food truck business. 2018

Example: 2

- design the dessert menu which meets the taste and preference of its customers
- provide user-friendly cutlery and packages which enable the customers to taste the dessert more easily

Use the case of Platine to illustrate the meaning of marketing concept.

(4 marks)(2012)

Marketing concept:

-A business should analyse the needs of its customers and take appropriate measures to satisfy those needs in order to make profit.

Step of marketing plan

Describe the steps in formulating a marketing plan for the fashion chain. 2017

1. review current performance and conduct situational analysis: e.g. conduct a SWOT analysis
2. set marketing objectives: e.g. increase in market share, profit maximization, etc.
3. select target markets: e.g. understand the buying behaviours of different market segments and choose the most suitable target market
4. formulate marketing strategies: e.g. targeting and positioning (e.g. market leader, market challenger, market follower or market nicher) which helps maintain and enhance fashion chain's competitive position

a. Describe the major elements of the marketing plan for the membership scheme of the food and beverage outlets.(2010)

Marketing plan:

- situational analysis and marketing objectives, e.g. SWOT analysis, number of members to be recruited

- selection of target market and positioning, e.g. high-income customers who frequently dine out.
- setting the marketing mix (4P), e.g. competitive membership fee, personal selling, members' privileges, online booking, marketing strategies related to positioning (e.g. market leader, market challenger) which help the firm maintain and enhance its competitive position
- implementation and evaluation, e.g. corrective actions to be taken if there is any deviation between the results and the objectives. (2 marks for each element, max. 8 marks)

Secondary data/ primary data

What is secondary data?(1 mark) (2016)

Data are readily available/ data collected for some other purposes (1)

(ii) Give two limitations of using secondary data to help Centralwash understand the needs of its customers.(2 marks) (2016)

- the data may be outdated
 - As the data were not collected for the intended purposes, they may not satisfy the needs of the users
 - Accuracy of the data is in doubt 1@, max 2

2. A restaurant is going to conduct marketing research on customers' opinions about its food quality. In addition to collecting secondary data for the research, it plans to collect primary data by random sampling. (2019)

(a) Differentiate between primary and secondary data.

(2 marks)

a) Primary data is data collected for satisfying a specific research purpose, while secondary data is data collected for satisfying some other purposes/data readily available.

3 Suggest two advantages to a jewelry retailer of using secondary data to carry out market research. Illustrate each with an example. (4 marks) 2011 HKALE

QUESTION 3

Marks

Advantages of using secondary data:

4

- lower cost e.g. very low costs of obtaining information through newspaper or web search
- easily accessible / save time e.g. search through the internet
- depending on the sources, could be very reliable, e.g. government

statistics on spending on jewelry purchases or number of incoming tourists

(2 marks for each relevant advantage, max. 4 marks)

marketing research

(c) Outline the steps in the marketing research process for Alex to assess the market potential of the modified Protect-You. 2010 HKALE

(4 marks)

Steps in the marketing research process:

- define the problem and research objectives
- develop the research plan for collecting information
- implement the research plan: including data collection and analysis
- interpret and report the findings

(1 mark for each relevant point, max. 4 marks)

Describe the steps involved in conducting market research to assess the market potential of the electric car. (8 marks)(2011) OFS

a) Steps in conducting market research:

- define the problem and research objectives
- develop the research plan:
 - ✧ specific information needs
 - ✧ research approaches
 - ✧ sampling plan / contact methods
 - ✧ research instruments
- implement the research plan:
 - ✧ data collection
 - ✧ data analysis
- interpret and report the findings

Data collection method

Give three types of data collection method that Miss Ma can use in conducting the market research. Explain each with an example. 2013

- survey research, e.g. questionnaire à quantitative
- qualitative research, e.g. interview
- observation research, e.g. on-site observation

- experiments, e.g. taste tests

Briefly describe three sampling techniques that can be used in marketing research. (6marks) (2014)

Sampling techniques:

- Random sampling: every member of the population has equal chance of being selected
- Convenience sampling: subjects are selected because of their convenient accessibility
- Stratified random sampling: the population is divided into mutually exclusive groups and random samples are drawn from each group 2@

Describe the data collection methods which can be used by the language learning centre to gather information on the preferences and needs of its potential customers. (8 marks) 2018

- Data collection methods: 8
 - qualitative research: e.g. conduct in-depth personal interviews or focus group interviews with the customers to find out the reasons for learning a particular foreign language and the best learning mode
 - survey research: e.g. use questionnaires to collect the information on the preferences and needs of its potential customers
 - experimental research: e.g. control groups to find out whether the mode of teaching would have an impact on the learning motivation of its potential customers
 - observational research: e.g. conduct trial lessons to observe the behavior of the potential customers in the classroom/observe the market situation by recording the number of the foreign language classes offered by its competitors

8.

(a) What are the problems with Peter's questionnaire survey? Explain three of them. 2008 HKALE (6 marks)

QUESTION 8

Marks

Problems:

6

- biased sample (respondents basically favor online ticketing)
- not enough relevant choices ("Others" accounts for about 30% of the responses)
- wrong interpretation (the least chosen reason does not mean dissatisfaction)
- non-response error

(b) Apart from questionnaire survey, suggest three data collection methods that could provide Sino Airlines with more detailed data to find out how to increase its online ticket sales. 2008 HKALE (3 marks)

- (b) Methods: 3
-)
- interviews: group or individual; face-to-face or telephone
 - focus group discussion
 - experiments
 - Delphi method
 - IT tools, e.g. 'cookies'

Outline two limitations of sending questionnaires to all customers in the membership scheme to explore whether customers generally accept robot service. 2017

- less in-depth information
- difficult to control the response rate
- limited and biased sample as it could not include other restaurants' customers/non-members

(b) Apart from the sampling technique mentioned above, give two other sampling techniques and explain how the restaurant could use each of them to collect primary data. (4 marks)

- b) Other sampling techniques:
- convenience sampling: e.g. put a questionnaire on the table for customers to fill in
 - stratified random sampling: e.g. customers are divided into three groups, i.e. breakfast, lunch and dinner, random samples are drawn from each group
 - (1 mark for the name and 1 mark for the application, max. 4 marks)

6c Give two types of data collection methods and explain how Sum Kee could use each of them to gather information from retailers. 2020 (4 marks)

- (c) Data collection methods: 4
- qualitative research: e.g. interview, focus group interviews
 - survey research: e.g. questionnaires
 - observational research: e.g. mystery shoppers, on-site observation
 - experimental research: e.g. control group
- (2 marks for each relevant method, max. 4 marks)

customer decision making process

- (b) Based on the steps of the consumer buying process, describe how the customers of the 10-minutes haircutting service reach their buying decisions.

(6 marks) HKALE 2012**(b) Buying process:**

1. Stimulus/awareness and need identification: recognize needs for pragmatic reasons (e.g. hair getting long)
2. Information search and formulation of alternatives: spend relatively little effort on information search as the equipment and service process are quite standardized (hence difference in service quality is little)
3. Evaluation of alternatives: consider mainly convenience and price/cost

(a) illustrate the steps of the buying decision process. 2008 HKALE (10 marks)

Buying decision process:

10

- Stimulus: a drive or a cue that motivate/arouse the buying behavior
- Need/want/problem awareness: recognition of the need/want/problem
- Information search: looking for a list of alternatives that the need/want can be met or problem can be solved
- Evaluation of alternative: comparing and assessing alternative choices before making a decision to buy
- Purchase act: buying the product/service
- Post-purchase behavior: making re-evaluation after the purchase of the product/service

(2 marks for completeness and correct sequencing of the process, MAX 10)

1. Besides selling to individual consumers through its own retail outlets, a manufacturer of bathroom and kitchen products also sells to property development companies who buy in bulk for building residential flats.

a. With respect to the bulk purchase of bathroom and kitchen products, illustrate the buying decision-making process of the property development companies. (2010) (8 marks)

Buying decision-making process:

- recognize the problem: e.g. identify new market needs for real estate projects
- determine product needs and describe product specifications: e.g. characteristics and quantity of the items needed
- search for suppliers: e.g. seeks out qualified suppliers and invites them to submit tenders
- assess and select suppliers: e.g. reviews tenders and select supplier(s) based on criteria such as price, quality and reputation
- evaluate overall performance: e.g. the company evaluates suppliers' performance.

(2 marks for each step, max. 8 marks)

With reference of the customer decision-making process, outline the steps Platine's customers should take before they make their purchase decisions. (6marks)(2012)

Steps:

- stimulate: e.g. read an advertisement in a food magazine 2
- need/problem awareness: e.g. feel hungry
- information search: e.g. obtain information from personal sources (e.g. family or friends) or commercial sources (e.g. advertisements on magazines or website) 1
- development of alternatives: e.g. chooses several restaurants
- evaluation of alternatives: e.g. compares Platine with other restaurant

1. 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) (2014)

Steps:

- i. Need recognition/ stimulus: e.g. to improve skin quality; to seek a better outlook on an important occasion
 - ii. Information search: e.g. personal sources such as friends and relatives; commercial sources such as advertisements or salespeople
 - iii. Formulate and evaluate alternatives: e.g. comparison of price, reputation and service quality, etc
 - iv. Purchase decision: e.g. decides on which beauty centre to patronize (visit) according to evaluation results (if no disrupting factors arise)
 - v. Post-purchase behaviour: e.g. patronize again if the service matches expectation; switch to another beauty centre or lodge complaints if the service falls below expectation
- 2@ → correct sequence → MAX 10

with reference to the purchase decision making process, explain the steps customers would go through for the purchase of a new mobile phone. (12) (2016)

Steps:

- Need recognition/ stimulus e.g. handset broken or attracted by new functions
- Information search: e.g. from personal sources (e.g. friends/ relatives/ etc), commercial sources (e.g. websites, magazines, etc) or public source (e.g. Consumer Council, consumer ratings, etc)
- Formulation and evaluation of alternatives: e.g. choose several models of suitable handset, set selection criteria, compare the features, price and quality of different models
- Purchase decision: e.g. decide on the handset model to purchase based on the evaluation result
- Post purchase behavior: e.g. evaluate the performance of the handset to see whether it meets

(a) Describe the purchasing process of industrial materials for production purposes.

2011

(10 marks)

QUESTION 5**Marks**

(a) Candidates should describe the purchasing process of industrial materials for production purposes:

10

1. Determine the materials to purchase, i.e. consulting the user departments to decide on the specifications of the materials.
2. Invite suppliers to bid or approach qualified suppliers.
3. Develop criteria for selecting suppliers, e.g. pricing, quality, delivery, etc.
4. Evaluate and select the best (right) supplier(s) according to the stipulated criteria and in consultation with relevant departments, e.g. engineering department, production department, etc.
5. Develop an effective ordering and feedback system to follow up the purchase job.

(2 marks for each step, max. 10 marks)

Business and customer market

(a) Illustrate the differences between the business market and the consumer market for this company. (10 marks) 2019

(a) Differences:

10

	Business market	Consumer market
Complexity of buying decisions	<ul style="list-style-type: none"> – formalised procedure – more participants (multiple decision participants) – buyers have professional knowledge of computer products 	<ul style="list-style-type: none"> – simpler personal decisions – buyers do not have in-depth knowledge of the computer products
Nature of demand/ Purposes of purchases	<ul style="list-style-type: none"> – derived demand, e.g. for production and operation – relatively more frequent and purchase in larger amount – fewer buyers 	<ul style="list-style-type: none"> – direct consumption, e.g. home use computers – relatively less frequent and purchase in smaller amount – more buyers

Relationship between buyer and seller	– usually maintain a long-term and close relationship with the computer company	– less likely to maintain a long-term and close relationship with the computer company
Price sensitivity of buyers	– relatively less sensitive	– relatively more sensitive

(3 marks for each relevant difference, max. 10 marks)

a. Using the budget airline market as an example, explain three differences in buying behaviour between the consumer market and the business market. (2014) (6 marks)

Differences

	Consumer Market	Business Market
Buying decision	- Relatively simpler personal decisions	- Formalised procedure/ more participants/ professional buyers
Nature of demand	- Direct consumption (e.g. travel during vacation)	- Derived (for transporting goods to overseas customers)
Relationship between buyer and seller	- Less likely to maintain long-term relationship with airlines	- Usually maintain long-term relationship (e.g. enter into long-term contract) with airlines
Price sensitivity of buyers	- Relatively more sensitive	- Relatively less sensitive
Buying volume	- Fewer (individual needs)	- higher (a growth of staff/ large number of cargoes)

b. Compare and contrast the marketing mix strategies that the manufacturer would adopt for business buyers and individual consumers.(2010) (12 marks)

	Business buyers	Individual consumers
Product	<ul style="list-style-type: none"> • More tailor-made products • Product support is critical, e.g. more organized after-sales service 	<ul style="list-style-type: none"> • More standardized products • Usually offer warranty for a limited period of time
Pricing	<ul style="list-style-type: none"> • Competitive bidding and negotiation; list price on standardized products • Bulk discounts 	<ul style="list-style-type: none"> • List price • Promotional discounts
Promotion	<ul style="list-style-type: none"> • Promotion strategies suitable for concentrated customers, e.g. promotion by own sales force. 	<ul style="list-style-type: none"> • Promotion strategies suitable for scattered customers, e.g. mass advertising
Place	<ul style="list-style-type: none"> • Direct channel by own sales force 	<ul style="list-style-type: none"> • Direct channel through own retail outlets

Describe three differences between a consumer market and a business market. (6 marks) (無寫behaviour) (2011)

	Consumer market	Business market
Number of buyers	More	fewer
volume of each purchase	Smaller	Larger
Purpose of purchase	Consumption	Production
Relationship with sellers	Shorter term	Longer term

(b) With reference to the buying behavior of consumers versus that of industrial buyers, explain three differences between individual households and corporate clients in the residential property leasing market.

(6 marks) 2009 HKALE

(b) Differences between individual households and corporate clients:

- frequency/amount of purchase: the market size (in terms of number) of individual households is bigger than that of corporate clients whereas corporate clients can afford a relatively higher price than individual households (a higher market segment)
- purpose/motivation: individual households are mainly for own consumption while corporate clients rent the flats for their staff
- assessment criteria: different factors will be considered e.g. cost-consciousness vs personal preference
- decision-making: more people/bureaucracies will be involved in the purchase decision of the corporate clients
- product knowledge: individual households rely on personal knowledge and relationship with the agents more than the corporate clients

factors affecting the buying decisions of customers

(b) Illustrate with examples the socio-cultural factors and psychological factors affecting the buying decisions of the fashion chain's customers. 2017

Socio-cultural factors

- culture: e.g. beliefs, values and customs (include race, religion, geographical location and age)
- social class: e.g. occupation, education and income
- reference group: e.g. direct reference group (e.g. friends, family member, colleagues) and indirect reference group (e.g. celebrities)

Psychological factors

- perception: e.g. how customer process the stimuli (e.g. country of origin, texture and quality, package) to which they are exposed to
- learning: e.g. changes in behavior through experience (e.g. poor quality of clothing bought from the shop previously would hinder the customers to come again)
- belief and attitude: e.g. feelings towards the brand
- personality and self-concept: e.g. choose clothing which can reflect their identities and characters (e.g. conservative/open-minded/trendy)
- motivation: e.g. Maslow's Hierarchy of Needs

5b Explain two psychological factors affecting the buying decisions of the customers of Happy Café. 2020 (4 marks)

- (a) **Psychological factors:** 4
- perception: how customers process the stimuli, e.g. smell and taste of coffee
 - learning: changes in behavior through experience, e.g. prefer coffee if customers had good experience in coffee
 - belief and attitude: e.g. feelings towards the brand of the café, belief that caffeine is harmful to health
 - personality and self-concept: choose the drinks which can reflect their personality, e.g. sociable, professional, etc.
 - motivation: choose the drinks to satisfy the needs, e.g. take a break (2 marks for each relevant factor, max. 4 marks)

Bases of segmentation

With reference to the major types of market segmentation basis, illustrate how the Hong Kong tourist market can be segmented.

(12 marks) HKALE 2012

- (a) Candidates should illustrate how the Hong Kong tourist market can be segmented with reference to the following types of market segmentation basis:
- geographical: e.g. Southeast Asia, Mainland, Europe, U.S.
 - demographic: e.g. age group, sex, income, family life cycle (young singles, young couples, couples with children attending school, retired couples etc.)
 - psychographic: e.g. social class, lifestyle
 - behavioral: e.g. objectives of tourists, loyalty (e.g. frequency of visits)

(4 marks for each relevant type, max. 12 marks)

(b) With respect to each of the following categories, suggest two market segmentation criteria for the school: 2008 HKALE

(i) demographic (2 marks)

(ii) behavioral (2 marks)

QUESTION 6

2

(i) Demographic:

- age
- gender
- income
- occupation
- education level

(ii) Behavioral:

- benefit sought, e.g. businessmen trying to impress business associates, rich people trying to show their social status, young people prepare for working
- occasion, e.g. manner and dressing for banquet and official occasions, business and general social occasions
- frequency of use, e.g. public relation personnel vs. housewives

2

(1 mark for each relevant criterion, max. 2 marks)

9. Tourism is one of the major in Hong Kong. As the number of visitors from the Mainland increase and the industry outlook for the hotel sector becomes more positive, new hotels are going to be set up.

(a) Suggest the bases of market segmentation for a new hotel.(8 marks)(2012)

- geographical segmentation: countries, cities or neighbourhood, eg. target those guests from the Mainland
- demographic segmentation: age, sex, income, occupation, family life cycle and educational level, e.g. a 5-star hotel targets those guests with higher income
- psychological segmentation: social class, life style and personality characteristics, e.g. target those guests from the upper class
- benefit segmentation: product benefits that customers seek, e.g. target those guests who seek for a convenient location

(2 marks for each relevant base, max. 8 marks)

(a) With reference to three market segmentation bases, distinguish between the market segment of Wong Kee and that of the frozen yogurt shops. 一見倒bases 個字就知道問細分方法(4 marks) 2013HKALE Q5

(b) Differences:

	Wong Kee	Yogurt Shop
Age (demographic)	People from <u>different ages</u> but more likely elders	Mostly <u>youngsters</u>
Benefit sought (Behavioral)	Lower cost and <u>convenience</u>	Enjoyment and <u>trendy feeling</u>
Loyalty status (Behavioral)	<u>Loyal</u> customers	<u>Unstable loyalty</u>
User status (frequent or first time?)	<u>Mostly regular</u> and frequent users	<u>Quite a number of first-time and infrequent</u> customers

each relevant difference 2@, max. 4 marks)

* other benefits variables: high quality/ low cost/ good taste/ speed/ feeling of privileged

** bases/ types of segmentation: Demo/ Geog/ Behavioral/ Psycho

Variables: ages/ gender/ occasions

9. The banquet service is one of the main sources of income for hotels in Hong Kong. Customers usually hold banquets in hotels for weddings or birthdays.

(a) Illustrate with examples the bases of market segmentation that can be used by a hotel in Hong Kong for its banquet service. (10) 2015

Bases of market segmentation:

- demographic segmentation: e.g. people with different income levels may hold banquets in different classes of hotels → high income group = request luxurious menu

- psychographic segmentation: e.g. people with different lifestyles (such as vegetarians and people who care about environmental protection) may order different dishes (e.g. dishes without meat) for their banquets

- behavioural segmentation: e.g. different people may hold banquets for different occasions such as weddings, birthdays and graduation dinners → e.g. grad dinner, need a larger function room

- geographic segmentation: e.g. customers from different countries may have different preferences for banquet settings and proceedings → wedding couples from other countries,

ask for western menu (3 @ à 10)

(b) As suggested by Martin, explain three other bases of market segmentation that Robin could use.(6marks) 2018

Other bases of market segmentation: 6

- demographic: e.g. age, gender, income, occupation, family life cycle
- psychographic: e.g. social class, lifestyle (health consciousness), personality
- behavioral: e.g. benefits sought (convenience), occasions (sightseeing), frequency of visit

(2 marks for each relevant basis, max. 6 marks)

1. Suggest three bases of market segmentation for a newly-established cake shop. 2020 (6 marks)

Bases of market segmentation:

- Demographic: e.g. age, income, family life cycle, gender (kids vs adults, high-income vs low-income, individual vs family use)
- Psychographic: e.g. social class (brand name of the cake shop), lifestyle (use of low-fat ingredient), personality
- Behavioural: e.g. benefit sought (gift or for personal use), occasions (for birthday or daily food), frequency of visit/usage rate
- Geographic: e.g. different tastes and preference of customers from different districts

(1 mark for the base of market segmentation and 1 mark for the explanation related to the cake shop, max 6 marks)

- × Wrong spelling of the base (0)

criteria for evaluating a market segment

With reference to the criteria for evaluating a market segment, explain why the middle-class is an effective market segment for organic food restaurants. 2013

- purchasing power: e.g. middle-class customers have higher income
- growth of the segment: e.g. middle-class customers become more health conscious
- competition: e.g. no dominant competitor in the field serving the middle-class customers
- distinctiveness: e.g. the market segment of middle-class is differentiable from other segment

Explain the concept of market segmentation and the conditions under which a market can be successfully segmented.

(13 marks) HKALE 2012

4. (a) Candidates should explain the concept of market segmentation:
- dividing a heterogeneous market for a product/service into several homogenous segment,
- Candidates should explain the conditions under which a market can be successfully segmented:
- the characteristics used to categorize customers must be identifiable and measurable
 - all market segments should be distinctive from each other in terms of characteristics
 - the market segment itself should be accessible
 - each segment should be large enough to be profitable
 - the market segments should be actionable and responsive to marketing stimuli

Businesses often adopt different marketing strategies for different market segments. The challenge is to find the optimal level of differentiation in segmenting the market.

- (a) Explain the conditions in which differentiated marketing strategies are suitable. 2007 HKALE(13 marks)**

QUESTION 6**Marks**

- | | | |
|-----|--|----|
| (a) | Candidates should explain the following conditions suitable for differentiated marketing strategies: | 13 |
|-----|--|----|
- the market segment should be identifiable and measurable
 - the market segments should be distinctive from each other
 - the market segment should be substantial in size to support profitability
 - the market segment should be accessible
 - the market segment should be responsive to marketing stimuli

factor of choosing the market segment

- (a) Explain the factors to be considered by this company when determining which market segment should be targeted. (10 marks) 2019**

- (a) Factors:

10

- segment size and affordability: e.g. whether the segment is substantial enough for the company to enter, purchasing power of the customers in the segment
- segment growth rate: e.g. whether the segment has high growth rate for the company's future development
- segment structural attractiveness: e.g. whether the segment has intense competition or the customers have high bargaining power, availability of substitutes
- company objectives: e.g. whether the entry to a segment matches company's long-run objectives
- company capability: e.g. whether the company possesses the relevant skills and resources to provide satisfactory product to the segment

(3 marks for each relevant factor, max. 10 marks)

Explain the factors to be considered by a hotel when determining the target market for the banquet service. (10) 2015

Segment size: e.g. an attractive segment should be substantial enough for the hotel to consider entering (e.g. visitors from the mainland)

- Segment growth rate: e.g. a segments with strong growth rates are more attractive for the hotel
- Structural attractiveness: e.g. a segment which has less intense competition is preferred
- Company objectives: e.g. a segment is not attractive to a hotel if it does not match its long-run objectives
- Company capability: e.g. the hotel should have the skills and resources to provide satisfactory service to serve the segment (3@ à 10)

target marketing strategies

Explain with examples three possible target marketing strategies that the school choose to adopt to cover the market segments. 2008 HKALE

(6 marks)

- (c Target marketing (market coverage) strategies: 6
)
- Undifferentiated marketing: go after the whole market with one offer only, e.g. a course including both Chinese and Western manners for all kind of potential students
 - Differentiated marketing: design different offers for different market segments e.g. one course for business social manner, one for general social occasions, one for Chinese social manner and one for Western social manner
 - Concentrated marketing: go after one market segment e.g. concentrate on the Western social manners
 - Micro-marketing: tailor for special locality or individual

Market position

4c. What is meant by 'market positioning'? 2020 (2 marks)

(b) Market positioning

(2)

1	+	1
the company creates an image for its product	+	and projects the image to its target customers' mind
<p><u>Alternative answer:</u></p> <ul style="list-style-type: none"> □ Shows competitive advantages of its products / differentiates its products from competitors □ Competitive position in relevant market, such as market leader, market followers... 		

Product

2. Suggest three product strategies that a travel agency could adopt to attract customers. (6 marks) 2018

Product strategies:

- variety of tours: e.g. offer different kinds of theme tours and personalised trips

- quality of services: e.g. assign reliable and professional tour guides/provide prompt response and advice to customers
- add-on services: e.g. deliver real time travel information to travellers/provide travelling packages with airline service, hotel service, car rental service, etc.
- branding: e.g. promote the brand name of the agency

(2 marks for each relevant strategy, max. 6 marks)

Pricing

- (d) (i) State the type of pricing strategy suggested by Mary for the movie tickets. (1 mark)
- (ii) Give one reason, other than the one given by Mary, to support the use of this pricing strategy. (2 marks) 2019

a) skimming pricing strategy (1 mark)

Reasons:

- the new technology could attract customers of low price sensitivity
- short-term profits would increase as the margin is higher

(2 marks for each relevant reason, max. 2 marks)

5. Describe two differences between the skimming pricing strategy and the penetration pricing strategy when launching a new product. (4marks) (2014)

Difference

	Skimming pricing strategy	Penetration pricing strategy
Initial price	- Highest possible price	- Relatively low price
Initial objective	- To maximize profits as soon as possible	- To capture market share instantly
Initial condition	- For customers of low price sensitivity - For products of rapidly changing technology - Target customers: Innovators or Early adopters	- For price-sensitive customers - For products of which the production technology cannot be easily copied - Target customers: Mass Market

(2 marks for each relevant difference, max. 4 marks)

5. (a) Explain the price skimming strategy and the cost-plus pricing strategy in the context of marketing.

(6 marks) 2010 HKALE

(a) Price skimming strategy:

It is to set the highest price that consumers are likely to accept when the product (fashion item) is introduced in the market. The main objective is to squeeze the profit by charging what the customers can afford to pay.

(3 marks)

Cost-plus pricing strategy:

It is to simply add a mark-up to the cost of a product to arrive at the selling price. The mark-up percentage become the gross margin and they vary from industry to industry, from product to product, and from store to store. They are usually the result of years of tradition, based on comparison of competitors and relationship with the costs.

(3 marks)

- (b) Explain why the price skimming strategy is commonly used for high-fashion clothing at specialty stores while the cost-plus pricing strategy is generally used for grocery items in supermarkets.**

(19 marks) 2010 HKALE

- (b) Reasons for using price skimming in high-fashion clothing:
- high-fashion clothing carry a novelty value distinct from general clothing
 - recover high development and design cost
 - gain sufficient profit in a short period of time due to short-life cycle
 - take advantage on a relatively non-competitive market
 - take advantage of brand/company image of specialty store
 - consumers will enjoy the prestige associated with high-fashion clothing
- (2 marks for each relevant point, max. 9 marks)

(9 marks)

Reasons for using cost-plus pricing strategy in grocery items:

- mark-up pricing is the well-established practice in grocery industry
- mark-up pricing is convenient and easy to administer in grocery stores
- costs of grocery items are easy to estimate
- grocery items are convenience goods and standard pricing is common
- market prices are quite similar among competitive stores and mark-up pricing will not arouse competitive responses
- grocery stores aim at generating high sales volume with low profit margin

factor affecting pricing decision

Give three reasons to explain why Century Group should launch the low-priced version of the 4D portable electronic game device. (6 marks)(2011)

- size of segment: number of customers in the general public segment is greater than that of the high income customers
- capital and the payback period is shorter
- company's objective: making the 4D portable electronic game device more affordable meets the company's objective
- version is higher

Describe the factors to be considered by the smartphone manufacturer when setting the price for its new mobile phone. (8) (2016)

Factors:

- Marketing objectives: e.g. survival, profit maximization, capture of market share or image of high quality
- Other marketing mix strategies: e.g. match the objectives of its product, place and promotion strategies
- Cost of products, e.g., the price should be high enough to cover the total cost of the product
- Nature of the market: e.g. higher price in markets with less competitions
- Affordability of the market: e.g. higher price if the purchasing power of target customers is high
- Customers' perception: e.g. customers' perception of the value of the products, whether the product is unique in comparison to others
- Competitors' strategies: e.g. similar or even more attractive pricing strategy than competitors' to capture sales

Distribution

- 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) (2014)**

Ways:

- Better credit terms
 - Monetary incentives e.g. bulk purchase discount, cash rebate
 - Advertising and promotional allowance
 - Alliance with store chains
 - Non-pecuniary rewards e.g. awards in competition
- (2 marks for each relevant way, max. 4 marks)

- 3(a) Explain the major functions performed by intermediaries in the distribution of a product. 關於4P的PLACE HKALE 2013**

Candidates should explain the major functions performed by **intermediaries** 中間人 例如零售商, 批發商 in the distribution of a product: HKALE 2013

- enable customers to obtain the product at a convenient time/location e.g. provide delivery
例如去便利店, 不用去producer 地點
- provide producers/customers with appropriate market/product information 例如retailer告知生產商的產品資料, 另外又告知producer客人的喜好 (to understand final customers' needs)
- provide supporting services to customers before and after sales
facilitate the completion of sale transactions, e.g. transfer of titles of products as in the case of cars/flats
- stock up sufficient quantity of the product and helps to stabilize demand/price批發會存貨 3@

- (a) Discuss three advantages to Running Deer of selling its products through distributors. HKALE 2012**

(a) Advantages:

- Can get good existing outlet locations through distributors
- Gain access to distributors' large customer base
- Distributors have experienced sales management and selling teams
- Distributors can contribute to cross-selling by attracting customers not originally looking for backpacks

The channel for distributing industrial products to business buyers can be different from that for distributing consumer products to individual customers.

(a) Explain the characteristics of the distribution channel for a truck manufacturer selling its products to business buyers. 2009

HKALE

(13 marks)

4. (a) Candidates should explain the following characteristics of the distribution channel for selling trucks to business buyers:

- direct channels are more readily used; usually retailers are not employed
- transactions are fewer and orders are larger
- channel members are more specialized and knowledgeable
- selling according to specifications is more prevalent
- team selling (two or more salespeople) is more common
- may distribute by leasing

3. **Explain three benefits to a company of adopting a direct distribution channel for its products.(6 marks) (2016)**

Advantages:

6

- Gain more profit/save distribution costs: e.g. reduce commission, slotting fees etc. to intermediaries
- Better customers support: e.g. better product knowledge, tailor-made products for customers
- More discretion on the sales of products: e.g. can decide how products are displayed and promoted, better control on quality of products/price
- Can avoid using channel members of competitors
- Easy accessible to customers with its own sales channel e.g. better understanding of customers' needs, directly obtain the feedback from customers, cross-selling
- Build up unique image
- Lack of suitable channel members (without proper elaboration) X
- Lower transporting cost/more efficiency on transportation X
- Lower price X

(b) Explain the factors that the company should consider when deciding whether to distribute the bicycles to customers through middlemen. (12 marks) 2018

Factors:

- costs incurred on sales through middlemen, e.g. commissions and other fees paid to the middlemen

- control of the sales of bicycles: e.g. whether the company inclines to have more control over the sales and promotion of the bicycles
- relationship with customers: e.g. whether the company inclines to maintain direct and close relationship with its customers to collect feedback on the products/to provide professional advice to customers/cross-selling
- expertise of the company, e.g. whether the company possesses an experienced sales team
- customers' base: e.g. whether the company has connection with its potential customers

Explain three benefits to a company of adopting a direct distribution channel for its products.(6 marks) (2016)

Advantages:

6

- Gain more profit/save distribution costs: e.g. reduce commission, slotting fees etc.

to intermediaries

- Better customers support: e.g. better product knowledge, tailor-made products for customers
- More discretion on the sales of products: e.g. can decide how products are displayed and promoted, better control on quality of products/price
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- Lower transporting cost/more efficiency on transportation X
- Lower price X

promotion mix

(b) Explain with examples how the promotional mix might differ between convenience goods and industrial machinery. 2011 HKALE

(b) Candidates should explain with examples how the promotional mix might

differ between convenience goods and industrial machinery:

	<u>Convenience goods</u>	<u>Industrial machinery</u>
Personal selling	<ul style="list-style-type: none"> - generally not used for convenience goods as the customers are scattered around the market and difficult to be identified 	<ul style="list-style-type: none"> - common and effective for industrial machinery as their customers are more easily identified and more concentrated - message tailored to customer and adjusted to reflect feedback
Advertising	<ul style="list-style-type: none"> - used largely for promoting convenience goods as it aims at large market in which customers are difficult to be identified - competitive advertising more commonly used than product advertising 	<ul style="list-style-type: none"> - usually used to support other promotional tools to enhance company/brand image and not for directly generating sales
Sales promotion	<ul style="list-style-type: none"> - common examples are free samples, point of purchase displays, lucky draw, gifts, coupon etc, and is effective in generating immediate purchases 	<ul style="list-style-type: none"> - common examples are displays, demonstrations, trade shows and exhibitions, rebates, contests, and promotional materials such as brochures and posters - more likely to target distributors
Public relations	<ul style="list-style-type: none"> - serves mainly as the supporting purposes, e.g. enhancing company/brand image 	<ul style="list-style-type: none"> - more important in promoting industrial machinery as the purchase amount is greater, process is longer and the motive is more rational; target potential

buyers within the
trade

(d) Propose and explain four types of promotion strategies for the modified Protect-You.(8 marks) 2010 HKALE

(d) Promotion strategies:

- public relation: the use of celebrities in promoting the modified Protect-You
- advertising: advertisement on the message of prevention of Swine Flu
- sales promotion: the uses of samples and extra display areas in the pharmacies
- personal selling: sales people to approach more doctors and drug stores for selling the modified Protect-You

With reference to any three elements of the promotion mix, suggest one way each to promote the organic food restaurants. 2013

- advertising: e.g. advertising on TV, food magazine or websites
- sales promotion: e.g. discounts, free gifts, lucky draw
- public relations: e.g. grand opening, press conference, press release
- personal selling: e.g. waiters recommend dishes to customers

5. With respect to the promotion mix of a retailer, describe two disadvantages of using sales promotion. 2007 HKALE

Disadvantages:

4

- effect short-lived
- cannot build up long-term brand preference
- easily copied by competitors
- customers will delay purchases in anticipation of upcoming promotions

Suggest three reasons why it is difficult for businesses to evaluate the effectiveness of advertising in boosting sales. 2008 HKALE

QUESTION 3

Marks

Reasons:

6

- direct measure of effects not possible
- integrated effect of other marketing activities
- long term instead of short term effect, e.g. some advertising efforts are for building up brand image
- external environmental influences, e.g. higher income or better economic outlook

(2 marks for each relevant reason, max. 6 marks)

(4 marks)

For any three elements of the promotion mix, suggest one way each for Lucky to stimulate the sales in its own retail stores. (6 marks) 2015

advertising: e.g. place advertisements on various media such as TV, magazine and

the Internet

sales promotion: e.g. give incentives such as purchase discounts, gifts, coupons and

samples

public relations: e.g. launch events such as press conference and road shows

personal selling: e.g. train in-store salespeople to persuade customers to buy

(2)

(a) Apart from the element of the promotion mix mentioned in the case, give two other elements of the mix and explain how Speedy Company could use each of the elements to boost its sales. 2019

(4 marks)

Elements of promotion mix:

- sales promotion: e.g. offering discounts, gifts, lucky draws
- public relations: e.g. sponsorship of sports events, use of celebrities to promote the products
- personal selling: e.g. introduce the products to athletes of different sports teams in Hong Kong

(a) With reference to any two steps of the personal selling process, explain why selling to the high-end market would be more complicated. HKALE 2013 Q6(4 marks)

(b) Steps:

- identifying prospect: needs to be more skillful in locating 找出 customers interested and affordable to buy the branded suitcases
- approaching: 接觸: require more skills to cater for special requests and expectations as customers usually look for special/unique product/service features
- demonstrating: requires more product knowledge and fashion awareness
- handling objectives: needs to answer customer's queries with greater patience and confidence

Marketing Mix

(a) Compare and contrast the marketing mix strategies that the manufacturer would adopt for business buyers and individual consumers. (2010)

(12

marks)

	Business buyers	Individual consumers
Product	<ul style="list-style-type: none"> - More tailor-made products - Product support is critical, e.g. more organized after-sales service 	<ul style="list-style-type: none"> - More standardized products - Usually offer warranty for a limited period of time
Pricing	<ul style="list-style-type: none"> - Competitive bidding and negotiation; list price on standardized products - Bulk discounts 	<ul style="list-style-type: none"> - List price - Promotional discounts
Promotion	<ul style="list-style-type: none"> - Promotion strategies suitable for concentrated customers, e.g. promotion by own sales force. 	<ul style="list-style-type: none"> - Promotion strategies suitable for scattered customers, e.g. mass advertising
Place	<ul style="list-style-type: none"> - Direct channel by own sales force 	<ul style="list-style-type: none"> - Direct channel through own retail outlets

- (a) Apart from pricing, illustrate how Fair Lady can apply the other three elements of the marketing mix to gain a larger market share. (6 marks)

HKALE 2012

- (a) Elements of marketing mix:

- Product: e.g. greater variety of products; better packaging; better service
- Place: e.g. more convenient locations; delivery service
- Promotion: e.g. more advertising/sales promotion; publicity and recommendations by better trained salespersons

With reference to the four elements of the marketing mix, explain why customers may prefer eBooks over printed books. 2011

HKALE

(6 marks)

QUESTION 6**Marks**

- (a) Reasons why customers prefer eBooks over printed books:

6

- Price: prices of eBooks are usually lower than printed books and shipping costs are also saved
- Product: eBooks are incorporated with different functions e.g. display enlargement, multi-media features
- Promotion: the concept of environmental friendliness is widely accepted
- Place: eBooks can be searched, purchased, delivered and updated online

(1 1/2 marks for each element of marketing mix, max. 6 marks)

(e) Illustrate the appropriate marketing mix for the school. 2008
HKALE (8 marks)

Marketing mix: 8

- i. Product: basic and generic course
- ii. Price: lower price penetrating the market of targeting mass market: adopt skimming pricing if concentrating on a premium market
- iii. Promotion: build product awareness through advertising and demonstration; use heavy sales promotion, e.g. discount or gifts, to entice trial
- iv. Distribution: strategically located for target markets, e.g. selective distribution, limited branches

(2 marks for each component, max. 8 marks)

(b) Apart from increasing the prices of its dishes, state three ways in which Wong Kee can increase the revenue from its existing shop space. 這題有D難，小小關於operation,仍然需要參考(3) 2013HKALE Q5

(a) Ways:

- boost the sales of the high margin dishes (promote Wong Kee as a restaurant for high quality home made lunch/dinner dishes)
- more intensive utilization of shop space (reduce kitchen size and/or use smaller tables and chairs)
- generate more sales during off-peak timeslots (offer discounts during timeslots of low business)
- generate more business with the existing space (promote take-away sales) □ place strategies

(1 mark for each relevant way, max. 3 marks)

(c) Apart from pricing, suggest how the other three elements of the marketing mix can be tailored for the target customers of a frozen yogurt shops. (6marks) 2013HKALE Q5

(c) Marketing mix:

- Product: greater **variety** and more innovative; service and environment (例如hip hop background music/ colourful sofas/ dim lighting/ cartoon carpet/ views) □ suited to **youngsters** e.g. younger salesperson, colorful uniform

(Do not say: more flavours such as apple, orange, etc...)

- Promotion: promotion messages □ highlight the young and trendy style of the shop & media: promote itself through Facebook and/or magazines targeting youths

- Place: (already mentioned LOCATE near school) :
 - i. Convenient shop layout: self-service yogurt machine □ make ordering process quick / open kitchen/ outdoor dining □ more fashionable that suits youngsters' taste
 - ii. Order through mobile app □ can take away the dessert at once
 - iii. Operating hours : accommodate the needs of students □ operate during school lunch hour and after-school hour/ opens till midnight during weekends
 - iv. special decorations for popular events (e.g. large mirrors on wall, flowers) and festivals e.g. Halloween
- (2 marks for each element of the marketing mix, max. 6 marks)

(d) Suggest the appropriate marketing mix strategies for the low-priced version of the 4D portable electronic game device. (8 marks)(2011)

Marketing mix strategies:

-product : basic product

-price: penetration pricing

-promotion: content: build product awareness, method: heavy sales promotion

-place: selective distribution

(e) Other than product, there are three other elements of the marketing mix. Suggest one way in which Platine can use each of these other elements to enhance its competitiveness (6 marks)(2012)

Ways:

-price: e.g. competition-based pricing / price differentiation

-promotion: e.g. advertisement / waiter's recommendation

-place: e.g. take away service / longer service hours

(2 marks for each relevant way, max. 6 marks)

Product life cycle

Based on the information provided in the case, identify the stage of product life cycle of the eBook market in Hong Kong. Justify your answer with two reasons.

2011

HKALE**(5 marks)**

- (b) Introductory stage 1
- Reasons: 4
- Little competition (not many eBook publishers in Hong Kong)
 - Not yet adopted by the mass market (eBook market not yet popular in Hong Kong)
 - Less sales relative to traditional printed books (not many people using eBook readers)
 - Non-standardized technology (eBook readers are of different size and specifications)
- (2 marks for each relevant reason, max. 4 marks)

With reference to the concept of the product life cycle, state four characteristics of the market of the 4D portable electronic game device. (4 marks)(2011)

Characteristics:

- sales: low
- profit: negative
- costs: high cost per customer
- customers: innovators
- competitors: few

a. Give three pieces of evidence from the case to support Billy's view that the dishware cleaning and sanitising industry is at the maturity stage of product life cycle.(3 marks) (2016)

Evidence:

- increased competition
- slow down in sales growth
- price competition is popular
- some weaker competitors have been driven out of the market
- **profit of the WHOLE industry** start to decrease

As its product reaches the growth stage of the product life cycle, a company considers expanding its business and recruiting more managers internally.

(a) Describe the characteristics of the growth stage of the product life cycle. (12 marks) 2013

Characteristics: (* × 4Ps in growth stage)

- high growth in sales
- begin to earn substantial profit
- drop in average cost
- competition becomes keener
- customers are early adopters

Product stage + 4P

Suggest a product strategy and a pricing strategy for the beauty centre. For each strategy, justify your suggestions with one characteristic of the growth stage of the product life cycle. (4) 2015

characteristic: growing number of competitors

- Product strategy: e.g. provide a greater variety of beauty and skin care services to differentiate from competitors
- *Characteristic: growing number of customers / growing number of competitors*

Pricing strategy: e.g. set lower prices to penetrate market

With reference to any three elements of the marketing mix, suggest one way in which each can be used to market a product in the decline stage of the product life cycle. (6 marks) 2017

- price: e.g. cut to stimulate sales
- product: e.g. phase out weak/unpopular product items
- place: e.g. phase out unprofitable distribution channel members
- promotion: e.g. minimize promotional expenses and focus on retaining loyal customers

(ii) | With reference to any two elements of the marketing mix other than promotion, suggest one remedial action for each to cope with the competition mentioned by Lucy. 2019 (4 marks)

Remedial actions:

- price: e.g. set a competitive price to attract customers
- product: e.g. explore new product features to distinguish from the competitor, provide better after-sales services
- place: e.g. setup online store

(2 marks for each remedial action, max. 4 marks)

7 For the toys in the current stage of the product life cycle, propose appropriate marketing mix strategies for the company. 2020 (10 marks)

Maturity stage:

10

Marketing mix strategy	
Product	<ul style="list-style-type: none"> - add new products features/modify the products - diversify brand and models
Price	<ul style="list-style-type: none"> - set competitive pricing - reduce price of old models, set reasonable price for new products

Place	<ul style="list-style-type: none"> - build more intensive distribution network - expand the market reach
Promotion	<ul style="list-style-type: none"> - stress brand differences/unique features - increase advertising and sales promotion

(3 marks for each relevant element of marketing mix, max. 10 marks)

Service marketing

(c) With reference to the characteristics of service, suggest three ways of enhancing customers' loyalty to the new salon.

(6 marks) HKALE 2012

(c) Ways:

- Intangibility: improvements in the shop environment, equipment and uniforms, etc. to provide cues of quality
- Inseparability: increase the contact between customers and other staff of the salon, e.g. greetings, tea service, introducing products on hair care
- Variability: formulate standard operating procedures for shampooing, booking, reception, telephone enquiries, etc.; regular appraisal of the operation standard and service level of core staff members
- Perishability: booking system; engaging part-time stylists for peak periods

(a) Illustrate three characteristics of service using Leslie and Mike's real estate agency business as an example. 2009

HKALE

(6 marks)

(a) Characteristics of service:

- intangibility: agency service does not involve physical substance
- perishability: agency service cannot be produced in advance or stored up
- inseparability: the agents part of the service and their expertise and knowledge is an important part of this service
- variability: quality may be varied, depending on performance of the agents

(2 marks for each relevant characteristic, max. 6 marks)

(6 marks)

b. With respect to the characteristics of service, discuss three possible causes leading to the unsatisfactory occupancy rate of Starlight Hotel.(2010)

Causes:

- perishability, e.g. cannot stock up room service to meet seasonal demand
- intangibility, e.g. poor customer service
- inseparability, e.g. lack of proximity to prospective customers
- heterogeneity, e.g. quality level of food and accommodation service is not steady as skills and experience of staff members varied. (2 marks for each relevant strategy, max. 6 marks)

With reference to two characteristics of service, give one reason each to explain why training can help Wing Hung to meet today's service standard. 2013

- intangibility: training helps to provide tangible signals of good service
- heterogeneity: training helps to reduce variability of service
- inseparability: training helps to equip employees with good interpersonal skills
- perishability: training helps to enhance employees' adaptability in dealing with fluctuating demand

(ii) With reference to three characteristics of service, explain how training can enhance the effectiveness of the personal selling of Carry-Easy's salespersons. (6 marks) HKALE 2013 Q6

Characteristics:

- intangibility: training enhances credibility through more convincing and confident personal appearance and presentation
 - perishability: training enables the salespersons to spot the most suitable moment and use appropriate measures to close the deal e.g. when mainland customers are done with their shopping in the shopping mall
 - heterogeneity: service could be more standardized through training
 - inseparability: enables the salespersons to interact with customers skillfully
- (2 marks for each characteristics with relevant explanation, max. 6 marks)

With reference to any three characteristics of service, explain how Sunlight Fitness can enhance the service quality of its fitness centres. (6) 2015

Intangibility: e.g. provide a cleaner environment to enhance visibility of service standard

Heterogeneity: e.g. provide training to enhance the level of standardization

Perishability: e.g. promote non-peak hour bookings to reduce customers' waiting time

Inseparability: e.g. hire experienced trainers with good communication skills to enhance interaction with customers

With reference to any three characteristics of service, explain how King's Restaurant can solve the problems with its service quality. (6 marks) 2017

- intangibility: e.g. be able to use tangible clues and physical evidence, such as providing clean dining environment, maintaining waiters' professional look

- inseparability: e.g. provide training to waiters to improve their interpersonal skills and service manners
- perishability: e.g. handle fluctuating demand flexibly and reduce waiting time by using reservation system or hiring part-time waiters
- heterogeneity/ variability: e.g. use instructional manual and standardized procedures to take food order and maintain service consistency

With reference to the characteristics of service, propose ways to improve the service quality of the hair salon. 2020 (10 marks)

- (a) **Ways:**
- intangibility: e.g. use tangible clues and physical evidence to enhance visibility of service
 - standard, such as maintaining stylists' fashionable look, showing photos with attractive hair styles
 - heterogeneity: e.g. use standardised procedures for serving customers to maintain service consistency
 - perishability: e.g. hire part-time stylists during peak hours, establish a reservation system
 - inseparability: e.g. provide training to hair stylists to improve their service quality and manners

(3 marks for each characteristic with relevant explanation, max. 10 marks)

- a. Besides the membership scheme, suggest two other ways of increasing sales during off-peak periods.(2010)**

Measures:

- reduce price in off-peak periods to stimulate sales
- offer value-added services, e.g. free internet service in the rooms
- change some of the hotel suites to service apartments
- offer promotion package to local residents during weekends
 - promote other services, e.g. hire of venue for business conference or exhibitions, food festivals

E marketing

(b) For each of the following, state two examples that are favorable for Skydome to launch internet shopping: 2007 HKALE

(i) product characteristics (2 marks)

(ii) customer characteristics (2 marks)

Product characteristics: 2

- standardized
- bulk/heavy
- low to medium price

(ii) Customer characteristics: 2

- working couples
- higher income group
- young people

A Hong Kong fashion retailing company is considering the following strategy to enter the European market: □ Direct selling through the Internet

Discuss the various criteria the company should use to evaluate the strategy.

2007 HKALE (25 marks)

Candidates should illustrate how the following criteria can be applied to evaluate the strategies to be adopted by a fashion retailing company to enter the European market:

	Direct selling through the Internet
Development and maintaining cost	Invest mainly in internet design and maintenance
Development risk	Depending on the technology level of the European market
Market accessibility	Widest exposure but not focusing on target customer
Management control	Highest control
Ownership product know-how	Absolute ownership and no possibility of losing product know-how
Familiarity with local environment	Requires good knowledge of the local environment

(b) Explain two reasons why it may not be suitable for Running Deer to sell online in Hong Kong. (4 marks)

HKALE 2012

(b) Reasons:

- Given high accessibility of retail outlets in Hong Kong, consumers are not eager to buy online
- Confidence problem: Running Deer is unknown to buyers
- Specialty / fashion products: buyers prefer to inspect products personally
- Consumers may still be hesitant with internet security

(c) Suggest two problems and two advantages to Sino Airlines of increasing ticket sales directly to customers through the online ticketing system. 2008 HKALE (8 marks)

Problems: 4

- impact of system breakdown
- system security problems, e.g. hacking, forgery, loss of confidential data
- possible adverse impact on agents' effort

Advantages:

- reap the profits of the agents 4
- less reliance on agents' effort
- greater control over marketing effort
- facilitate cross-selling, e.g. advertisement pops to promote sales of package productoriens
- increased operational efficiency (e.g. online seat assignment) will help to cut costs and/or enhance customer satisfaction

1. State three benefits to a bookstore of using e-marketing to perform its distribution function. (6 marks)(2012)

Benefits:

- cost-saving: reduce rent and labour cost
- wide coverage: easier access by customers from all over the world
- convenience to customers: facilitate sales
- extended service hours: enable round-the-clock service

a. Apart from lower cost, explain two benefits to the budget airline of adopting e-marketing strategies. (4marks) (2014)

Benefits:

- Promotion: e.g. advertisement pops on website; solicit customers' consent to send promotional information; cross-selling
- Service availability: round-the-clock operations
- Administrative efficiency: issue e-ticket/boarding pass online
- Increased sales: e.g. may set lower price through savings in commissions
- Customer relationship: e.g. allows interaction to improve communication; may collect customers' feedback more easily (2 marks for each relevant benefit, max. 4 marks)

a. Suggest three non-financial problems that may arise if Ming Kee launches the online shopping project.(6 marks) (2016)

Problems:

- IT: system security (e.g. hacking) and breakdown
- HR issues: e.g. manpower allocation and planning → any staff available to manage the online shop?
- Marketing: difficult to gain acceptance from existing customers (e.g. elderly) and attract new customers
- Operational problems: e.g. pressure on inventory management, stockout risk (operate round the clock!)

(c) Give two reasons why the electronic marketing system could increase sales in the cinemas.
(4 marks) 2019

b) Reasons:

- convenience to customers: e.g. issue e-ticket and show schedules on website
- closer customer relationship: e.g. reply customers' enquiries online, recommend movies to customers based on their purchase record
- enhanced promotion: e.g. show advertisement or trailers to stimulate customer's interest

(2 marks for each relevant reason, max. 4 marks)

CRM

1. Explain three reasons why customer relationship management will help increase sales. (6 marks) (2010)

Reasons:

- identify valuable customers
- provide customized products or services to customers
- offer cross-selling and/or up-selling
- establish long-term relationship with customers so as to increase potential long-term sales

Illustrate with examples to explain why customer relationship management (CRM) is important to a hotel.(12 marks) (2012)

Definition: CRM is a process that involves the use of customers' information to build and maincustomer relationships in an organized way

Reasons:

- more knowledge about customer thus better services can be provided
- lower cost to serve existing customers
- easier to retain customers than to acquire new customers
- increase cross-selling opportunity

From the perspective of customer relationship management, give two reasons why retaining existing customers is more important than attracting new customers. 2013

- Losing existing means losing their lifetime value/ Loyal customers make repeat purchases/ Free Word-of-mouth promotion, i.e. regular customer introduces new customers.
- Attracting new customer usually costs more than retaining existing one/ lower cost of serving
- Cross-selling more easily (2 marks for each point, max. 4 marks)

Give two reasons why customer relationship management could help increase sales to existing customers.) Reasons: 2017

- understand more the needs and requirements of existing customers, better products and services can be offered/facilitates cross-selling
- enhance loyalty of existing customers: e.g. rewards scheme
- better understand the buying habit of existing customers, more suitable promotion and distribution channels can be provided

5c Suggest two ways for Happy Café to enhance customer loyalty. 2020 (4 marks)

- (a) **Ways:** 4
- set up a customer relationship management system for formulating personalised marketing tactics
 - launch membership scheme: members can enjoy privileges, e.g. discount, point system for gifts
 - provide add-on services:
e.g. free wifi

HR management

Steps of manpower planning

1. A bus company has started manpower planning and forecasted that its demand for bus drivers will increase.

Describe the remaining three steps of this manpower planning process.

(6 marks) (2019)

Steps:

1. forecast manpower supply: e.g. staff turnover rate, retirement
 2. compare manpower demand and supply: e.g. identify shortage of manpower
 3. formulate action plans and follow up: e.g. recruitment and training
- (2 marks for each relevant step in correct sequence, max. 6 marks)

In view of its promising prospects, a listed fashion retail chain is planning to expand its business and is considering using debt or equity financing. 2015

(a) Describe the manpower planning process which should be used for the expansion of the retail chain.(8marks)(2015)

- forecast manpower demand: based on the plan and scale of expansion: quantity and quality of manpower
- estimate manpower supply: assess the current turnover rate, retirement policy and attrition rate
- compare manpower demand and supply: identify shortfall and skill deficiencies
- develop action plans and follow up: plan for recruitment and selection, plan for training and development

Describe the steps in manpower planning that Daisy should follow. (8 marks)(2011)

- forecast manpower demand: e.g. plan for the expansion and IT development
- estimate manpower supply: eg. Assess the turnover rate under different scenarios
- compare manpower demand and supply: eg. Ascertain the skills deficiencies in IT development
- develop action plan and follow up: eg. Recruitment and training

(b) Discuss the impacts of the following on a company's manpower planning: 2011

HKALE

(i) The company's extension of the mandatory retirement age for its employees

(ii) Legislation of minimum wage

(16 marks)

(a) Candidates should discuss the impacts of the following on a firm's manpower planning:

- (i) The company's extension of the mandatory retirement age for its employees 8
- Assessing the present human resource situation: The internal supply of employees, especially the more experienced employees, will provide a pool of additional reserve.
 - Forecasting future personnel needs: The need for recruiting new staff, especially the more experienced employees, is reduced
 - Meeting future human resource needs: More flexibility should be allowed in personnel programs to accommodate changes in career plans of different age groups of employees. 8
- (ii) Legislation of minimum wage
- Assessing the present human resource situation: Greater concern on higher labor cost and employees' productivity.

- Forecasting future personnel needs: Productivity of workers would be given higher priority than quality of workers
 - Meeting future human resource needs: personnel programs would be more focused on selection and staff development.
- (3 marks for each impact, max. 8 marks)

4. (a) Explain the process of manpower planning. 2011 HKALE
(9 marks)

QUESTION 4

Marks

(b) Candidates should explain the process of manpower planning:

9

1. Conduct the human resource forecast of future personnel needs (manpower demand)
2. Assess the present and future human resource situation e.g. turnover/ retirement to assess the future manpower supply
3. Compare estimated manpower demand and supply to see if there is a gap
4. Develop a program for meeting future human resource needs and evaluate after implementation

Recruitment

limitation of interview 2015 OFS

- The technical skills of the applicants are more important for the job but these cannot be easily reflected in an interview
- Result of the interview is subject to personal bias of the interviewers
- Difficult to set and apply standardized selection criteria

(b) Explain the advantages of different external recruitment channels. (10 marks) 2019

(Total: 20 marks)

(b)

Recruitment channel	Advantage
Job advertisement	<ul style="list-style-type: none"> - wide coverage - relatively cost-effective
Employee referral	<ul style="list-style-type: none"> - less screening is required - new employees adapt to the environment more easily
Employment agencies	<ul style="list-style-type: none"> - possess expertise to find suitable candidates and provide professional recruitment advice - more recruitment networks to seek suitable applicants

10

Job fairs	<ul style="list-style-type: none"> - more efficient - cost-effective and time-saving
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(3 marks for each relevant channel and its advantages, max. 10 marks)

20
marks

a. Describe the advantages of hiring shop supervisor through internal recruitment. (8marks) (2016)

Save time and cost: e.g. by providing a simplified recruitment process; by making use of readily available employees' record

Easier adaptation for the promoted employees: they are familiar with the working environment and culture of the chain

Better understanding of candidates: e.g. the chain knows the background, strengths and weaknesses of current employees from their past performance 2@ → MAX 8

Explain the advantages to the company of recruiting managers internally. (8 marks) 2013

- promotion-from-within policy is well-accepted by employees
- the company and the employees are familiar with each other
- lower recruitment cost and orientation cost
- higher motivation to existing employees

Outline two limitations of appointing a customer relationship manager through internal promotion. (4 marks) 2017

Limitations:

- affect the morale of candidates not promoted
- create unhealthy competition among the staff of the chain
- limited source of new ideas and skills
- limited choices of candidates

List four commonly used channels for external recruitment. (4 marks)(2011)

- job advertisements
- job fairs / walk-in days
- employees' referrals
- Labour Department

A fast food chain is going to set up a new branch and is considering hiring shop supervisor for the branch through internal recruitment. At the same time, in order to fulfill corporate social responsibility, the chain is planning to hire people with mild

mental and physical disabilities for the branch.

a. Describe the advantages of hiring shop supervisor through internal recruitment.(8) (2016)

Save time and cost: e.g. by providing a simplified recruitment process; by making use of readily available employees' record

Easier adaptation for the promoted employees: they are familiar with the working environment and culture of the chain

Better understanding of candidates: e.g. the chain knows the background, strengths and weaknesses of current employees from their past performance 2@ → MAX 8

Explain three advantages to a company of using employee referral to recruit staff. (6 marks) 2008 HKALE

QUESTION 4

Marks

Advantages:

6

- lower costs relative to other means of recruitment
- less screening is required
- easier to adapt to the organization
- tends to stay longer owing to personal relationship with the referrant

Appraisal

Briefly describe three uses of performance appraisal to a company.(6marks)(2013)

- Placement Development decision, such as promotion/ transfer/ demotion
- Identify Training Needs/ Develop suitable training program
- Manpower Planning/ Human Resources Planning
- Compensation adjustment/ design compensation package
- Motivation/ Provide feedback on performance/ Goal setting for employee/ Career path planning

2a. Candidates should discuss the functions of a formal performance appraisal system to a company: HKALE 2013

- adjustments of employees' compensation
- placement
- maintenance and motivation of employees 因會俾回饋教佢如何改善
- identifying training and development needs

- manpower planning according to change in labour skills demand and supply (observed as a result of appraisal) (3 marks for each relevant function, max. 8 marks)

Briefly describe two objectives for a company of appraising the performance of its salespeople.(4 marks) (2016)

Objectives:

- Evaluate salespeople's performance to make personnel decisions: e.g. promotion, transfer and salary adjustment
- Identify training needs of the salespeople / develop employees' capabilities: e.g. enhance product knowledge and communication skills
- Plan the manpower allocation: e.g. assign jobs to suitable employees according to their ability, identify and deal with skills surplus or deficit
- Motivate the salespeople to achieve the sales target: e.g. improve salespeople performance by providing feedback on performance. Goal setting for employee
- Align salespeople with company objectives: e.g. improve their understanding on the performance standards and company's overall objectives

(2 marks for each relevant objective, max. 4 marks)

(b) Illustrate the steps in conducting a performance appraisal for the course instructors. (12 marks)(2018)

1. set the aim of appraisal and performance standards and communicate with the appraiser and the appraisee
 2. measure and record staff performance, make comparison between expected and actual performance
 3. provide feedback and listen to staff response
 4. make human resources decisions: e.g. training and development, promotion, termination, etc.
1. After conducting the performance appraisal for its salespersons, a shop selling sportswear decided to promote a junior salesperson to a senior post. Describe the steps in the performance appraisal process before making the promotion decision. 2020 (6 marks)

Steps in performance appraisal process before making promotion decision	Elaboration
set the performance standards/performance objectives (and communicate with the salespersons) x set goal/objective/aim (1 mark)	Example of performance standards (e.g. quantity of sportswear sold, number of complaints, service quality, etc.) (1 mark)

<u>measure</u> actual performance of the salespersons and <u>compare</u> with the performance standards □ assess, evaluate (1 mark)	How to measure? (e.g. sales record, rating from customers' questionnaires, observation, etc.) (1 mark)
conduct appraisal interviews to provide feedback on appraisal result (1 mark)	Example of feedback/suggestion/guidance (e.g. improvement in communication skills, praise for the good performance, etc.) (1 mark)

- Correct description of step with elaboration □ 2 marks (max. 6 marks)
- Correct description of step without elaboration □ 1 mark (max. 3 marks)
- Incomplete description of step but with example □ 1 mark (max. 3 marks)

Reward

(d) Explain two remuneration systems that would make the hair stylists care more about the profits of the new salon. (4 marks) HKALE 2012

(d) Remuneration systems:

- Bonus based on the salon's net profit
- Profit-sharing
- Stock ownership/option scheme

(b) Explain what an incentive plan for rewarding employees is. Discuss the benefits and the shortcomings of implementing an incentive plan for rewarding employees in a company. 2010 HKALE

(b) Incentive plan:

It is a reward system in which employees' rewards are based on their performance, i.e. employees are paid at a higher rate if their output exceeded the standard output, e.g. extra bonus, progressive commissions, etc.

(3 marks)

Benefits:

- lower costs: reduction of unit labour costs and overhead cost
- better incentive to workers: more autonomy for employees to determine the rate of payment and level of effort
- more accurate control: output of individuals has to be measured for incentive payment to be made
- more effective control: employees (e.g. sales persons) whom could not be closely supervised will be under better control

(3 marks for each relevant point, max. 6 marks)

(6 marks)

Shortcomings:

- operational complexity / higher implementation costs: should define a fair and objective measurement standard □ difficult to design fair system and policy; should adjust operation condition to match with the performance-based reward system e.g. 要電腦計算那個員工服務那位客人從而計佣金
- **adverse effect on employees' incentive:** the employees' level of earnings will fluctuate and some will try to manipulate output
- lower quality of output: increasing volume of output may adversely affect the quality of output
- **internal jealousy and rivalry:** superior performers may be boycotted by other employees

A jewelry company is considering the use of financial incentives and job enrichment to enhance the job performance of its (i) sales people and (ii) jewelry designers.

(a) Evaluate the effectiveness of using financial incentives to enhance the job performance of these two types of employees. 2008 HKALE (12 marks)

QUESTION 6

12

Financial incentives are more effective in enhancing the job performance of sales people than jewelry designers:

Sales people	Jewelry designers
<ul style="list-style-type: none"> - Sales performance is more measurable and therefore easier to link with financial incentives. - The sales job is more stable and predictable. So it is easier to set standard performance. - Have higher need for financial rewards. Therefore financial 	<ul style="list-style-type: none"> - The job is difficult to quantify and therefore difficult to link financial incentives with performance. - Jewelry design varies by styles and patterns whereas financial incentives normally only increase with the number of design pieces but not quality of styles and patterns.

<p>incentives are more effective to raise their job performance.</p> <ul style="list-style-type: none"> - Awards of financial incentives are easier and perceived to be fairer. 	<ul style="list-style-type: none"> - Have higher need for both achievement and improvement of living and so financial incentives may be less effective. - Financial incentives are more difficult to execute and less receptive.
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1. What is indirect compensation (fringe benefits) ? State two purposes of providing indirect compensation to employees.(6 marks) (2012)

Indirect compensation:

- benefit other than normal wages and salaries

Purposes:

- enhance employees' senses of belongings
- retain employees
- attract high calibre employees

(2 marks for each relevant purpose, max. 4 marks)

(c) Discuss three problems that Peter's suggestion might create. 2007

HKALE (6 marks)

Problem: 6

- store sales depend on group effort not individual, there would be free rider
- people tend to spy on others and may lead to internal conflicts
- store sales may be subject to uncontrollable factors
- year-end bonus would be less motivational than monthly reward because time lag between reward and performance is longer
- it is hard to justify that each staff's contribution is the same as others

Explain three disadvantages of Johnny's proposal to change the remuneration system. (2018)

- limitations in performance appraisal, e.g. bias and errors, will lead to unfair bonus
- implementation costs: e.g. conduct seminars to explain the new system to the staff
- low motivational effect: e.g. staff may think that their performance contributes little

to the company's accounting profit/the accounting profit can be manipulated by financial tactics

- staff feel insecure as their annual income/bonus is uncertain

Apart from providing above market level salaries, suggest three other types of monetary compensation methods that Wing Hung could adopt to motivate its employees to perform better. (6 marks) 2013

- commission
- bonus
- merit pay
- profit-sharing
- stock option

(d) 重要 Apart from higher cost, discuss three problems that Carry-Easy may encounter if it introduces the individual commission system to motivate salespersons. (6 marks) HKALE 2013 Q6

(d) Problems:

- internal conflict among salespersons when competing for customers
 - ***no co-operation among salespersons**
 - dissatisfactions of supporting staff 如HR/會計等幕後員工不能分
- COMMISSION
- **emphasis on short term compensation may hurt service quality**
- ? *Lack of standard of measurement 今次不可 ? commission not attractive enough ? 不知道
- ? *unfair? hard to control the sales revenue? based on economic condition 不可, 題目已經話升緊

(2 marks for each relevant problem, max. 6 marks)

Suggest four non-monetary rewards that Lucky could give to its salespeople. (4 marks) 2015

Non-monetary rewards:

- Recognition programmes: e.g. best salesperson award/ verbal appreciation
- More training development opportunities: e.g. free language courses
- Job content: More job autonomy
- Better welfare: e.g. medical insurance

(1 mark for each relevant non-monetary reward, max. 4 marks)

Illustrate with examples the purposes of providing fringe benefits to the employees of an airline company. (12 marks) 2017

- comply with legal requirements: e.g. rest days, mandatory provident fund and statutory holidays
- build an image as a good employer: e.g. award of 'employer of choice'
- satisfy employees' security and social needs: e.g. insurance and recreational activities
- enhance employees' loyalty: e.g. airlines' staff discounts, training subsidies
- supplement to monetary rewards: e.g. extra holiday and flexible work arrangement

(b) To increase the inventory turnover, the firm decided to pay salary according to performance. Suggest one form of performance-based pay that the firm could introduce. 2019 (2 marks)

Forms: commission, bonus, merit pay: e.g. commission is usually calculated as a percentage of sales revenue which provides incentives to the salesperson

Training

a(i) Explain three benefits to Wai Fu Limited of providing training and development programs to staff.(6marks)(2010)

Benefits:

- enhance staff's commitment to the company
- enhance knowledge and skills of staff
- maximize individual productivity and potential

- prepare staff for changes
(2 marks for each relevant benefit, max. 6 marks)

3(a) Discuss two non-financial factors that should be considered in deciding the approach of offering the training programs. (4 marks)(2010)

- the range/specificity of the expertise involved
- other supporting factors, e.g. venue, staff deployment
- long term training needs
- alignment with corporate culture

(c) (i) Suggest two on-the-job training methods and two off-the-job training methods that Carry-Easy could adopt. (4 marks) HKALE 2013 Q6

c) (i) On-the-job training methods:

- coaching: 教練, 會訓練 + selling skills
- demonstration 例如 job rotation 當時實時示範 sell to customers
- mentoring: 指導者, 不是教練, 純粹俾意見 effective communication

(1 mark for each relevant method, max. 2 marks)

Off-the-job training methods:

- programmed learning (程序學習) to understand customers needs
- classroom learning/ lecture/ workshops (只教理論) to know customers' behaviour
- simulated training □ e.g. play computer simulated games handling customers' enquiries

(1 mark for each relevant method, max. 2 marks)

Suggest three off-the-jpb training methods and state how each of them can help the sales team of Centralwash increase the success rate of personal selling.(6 marks) (2016)

Off the job training methods:

- Lecturing/ classroom learning e.g. enhance product knowledge so as to improve personal selling skills
- Programmed learning: e.g. learn the sale procedure through books, computers or video recordings
- Role play: e.g. learn communication skills
- Case study: e.g. learn how to handle customers' objections
- Simulated training: e.g. learn the operation of the dishwashing machine through equipment simulation for effective sales presentation

Any 3, 2@ → 6

Outline three objectives of providing training to the drivers of a transportation company.(6 marks) (2017)

- Objective to avoid accidents: e.g. improve driving skills and enhance safety consciousness
- to improve the quality of service: e.g. enhance drivers' communication skills and manners to the customers
- to improve efficiency: e.g. better equip drivers with the skills and techniques required/ drivers are more familiar with the routes, roads and traffic regulations
- to provide personal growth opportunities to drivers for their career development à improve employees' morale
- to satisfy current and future needs and development of the transportation company

(d) (i) Suggest one on-the-job training method for the newly-recruited sales trainees. (1 mark) 2019

(ii) Explain one advantage, from the perspective of the sales trainees, of receiving on-the-job training instead of off-the-job training.

(d) On-the-job training methods: 1

- Example: coaching, job rotation

(1 mark for each relevant method, max. 1 mark)

Advantage: 2

- trainees can receive immediate feedback for prompt improvement
- more relevant to the job and more practical: e.g. trainees can apply the knowledge and skills learnt from the training to their works

(2 marks for each relevant advantage, max. 2 marks)

6d I From the perspective of Sum Kee, explain two reasons for arranging off-the-job training instead of on-the-job training for the salespersons. 2020 (4 marks)

(d)(i) Reasons: 4

- more systematic to teach concepts, principles and theories
- minimise disruption to normal working environment
- less stressful learning environment enhances learning effectiveness (2 marks for each relevant reason, max. 4 marks)

6d ii Suggest one off-the-job training method for Sum Kee that could improve the performance of its salespersons. 2020 (2 marks)

(ii) Off-the-job training methods:

- lecturing/classroom training: e.g. to introduce product knowledge

- programmed learning: e.g. self-learning via online platforms, books or videos
- role play: e.g. enhance communication skills to deal with customers' complaints
- case study: e.g. use cases to illustrate the handling methods of different scenarios in the workplace

(2 marks for each relevant method, max. 2 marks)

Training + service marketing

With reference to two characteristics of service, give one reason each to explain why training can help Wing Hung to meet today's service standard. 2013

- intangibility: training helps to provide tangible signals of good service
- heterogeneity: training helps to reduce variability of service
- inseparability: training helps to equip employees with good interpersonal skills
- perishability: training helps to enhance employees' adaptability in dealing with fluctuating demand

Maslow's Hierarchy of Needs Model

Apart from fulfilling physiological needs, apply three types of needs in Maslow's Hierarchy of Needs Model to illustrate how Kai Kee can attract young people to join the chain. 2011 HKALE (6 marks)

(a) Other types of needs:

6

- Safety: provide long service award, long term contract; improve the working conditions
- Social: establish team spirit among workers such as sponsoring social activities
- Esteem: use better job titles; improve the company image
- Self-actualization: provide more opportunities for promotion / training and development so that staff may demonstrate their abilities or develop their potentials

(2 marks for each relevant type of need, max. 6 marks)

Explain why the front-line employees of Moon Flower feel dissatisfied with reference to:

(1) Maslow's Hierarchy of Needs Theory (4 marks)(2011)

- Physiological needs: deteriorating working conditions due to long working hours
- safety needs: emotional insecurity due to customer complaints

7.

(a) With reference to Maslow's hierarchy of needs, identify and explain the levels of needs that the tutors of Fun Fun Maths are striving for.

(4 marks) HKALE 2013 Q7

(a) Level of needs:

- self-esteem: they will quit when they are being offended冒犯, 傷自尊, needed to be respected and appreciated their enthusiasm towards students
- self-actualization: they strive for achievements 不是為了錢, 為了讓學生越來越進步, objective: help their students to improve 2@

With reference to Maslow's Hierarchy of Needs Theory, explain two levels of needs which Marco's retail chain may not currently satisfy for its salespersons. (4 marks) 2017

social needs: need for interaction and communication with other people, e.g. relationships with colleagues and customers, sense of belonging

- esteem/ego needs: need for recognition of achievement and contribution, e.g. autonomy, appreciation, recognition, respects

- self-actualization needs: desire to realize his full potential and talents to achieve accomplishments, e.g. challenging job, career advancement, self-development

- physiological needs XXX: 'We have just increased the salary of the salesperson to a level which is higher than the market rate'.

- safety needs XXX: 'We also offered long-term employment contracts and comprehensive benefits to them.'

8 Applying Maslow's Hierarchy of Needs Theory, suggest ways to reduce the staff turnover rate of the hair salon. 2020 (10 marks)

(b) Maslow's Hierarchy of Needs Theory:

10

Level of needs	Way
Physiological needs	offer reasonable salary and sufficient rest time
Safety needs	offer safe working environment/longer term employment contract
Social needs	organise social activities to enhance communication among colleagues
Esteem/ego needs	show appreciation, recognition and respect
Self-actualisation	provide challenging job, career advancement and self-

needs	development opportunity
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(2 marks for each relevant way for each level, max. 10 marks)

Hygiene factor

a. Explain why Wai Fu Limited is faced with the problem of low staff morale with respect to: (2010)

i. Herzberg's dual factor theory

a command and control environment hampers the satisfaction of hygiene factors and does not cater for motivators; stringent rules and regulations may hinder the satisfaction of higher level needs, e.g. growth and development, sense of achievement, etc. (3)

(b) According to the motivators in the Dual-factor Theory, suggest three ways of encouraging the salespersons to take the initiative to interact with customers.(6 marks) HKALE 2012

(b) Motivators:

- Achievement: e.g. best salesperson award
- Recognition: e.g. praise the salesperson before other salespersons for actively interacting with customers
- Job enlargement: e.g. redefine job duties to include not only the selling of cakes but also building relationship with customers—challenging work
- More responsibility and power e.g. assign staff with the responsibility of designing programs to build relationship with customers such as organizing cake-making classes
- Advancement: e.g. include relationship with customers as one of the promotion 升職 criteria
- Growth: e.g. provide training on interpersonal relationship and sensitivity

With reference to Herzberg's Dual-Factor theory, suggest three ways to motivate the crew members of Skyline Airways.(6 marks)(2012)

Ways:

- give sense of recognition and achievement to employees
- empowerment and allow job autonomy

- offer more development opportunities
 - adjust job content to make it more interesting and challenging
- (2 marks for each relevant way, max. 6 marks)

Questions:

(a) Based on Herzberg's dual-factor theory, explain why the following measures are effective motivators for the salespersons: 2007 HKALE

(i) providing training (2 marks)

(ii) assigning additional sales tasks (2 marks)

Providing training: 2

- personal growth
- recognition

Assigning additional sales tasks: 2

- creative and challenging work
- opportunity for achievement
- responsibility

With reference to Herzberg's Dual-factor Theory, suggest two factors that can lead to job satisfaction for designers in a fashion company. Illustrate your answer with an example of each.(4 marks) (2016)

Factors: 4

- Recognition: e.g. appoint the designers to take part in designing competition/praise
- Responsibility/job autonomy: e.g. empowerment, involving in decision making
- Personal growth: e.g. provide workshops or seminars on creativity or latest fashion trend/training overseas
- Work itself: e.g. assign challenging work
- Achievement: e.g. success in designing a new product line
- Advancement/promotion: e.g. promote to senior designers

(a) In view of the complaints made by the staff who left the company, and with reference to Herzberg's Dual-factor Theory, 2019

(i) explain why the staff of Speedy Company are not motivated by the attractive remuneration

and comfortable working environment. 2019 (2 mark)

(ii) suggest two ways to motivate the staff of Speedy Company. 2019 (4 marks)

Because they are hygiene factors, which only prevent employees from dissatisfaction, but cannot lead to job satisfaction and motivation.

Ways:

- offer promotion opportunities
- adjust job content to make it more interesting and challenging
- empowerment and job autonomy

(2 marks for each relevant way, max. 4 marks)

theory X and Y

(c) Based on each of the following theories, propose with explanation one measure Britana might take to motivate the drivers to give up their break for the additional pick-up service: 2009 HKALE

(i) Theory

X

(3 marks)

(ii) Theory

Y (3 marks)

(ii) Convince drivers of the importance of extra-curricular activities to the school kids because Theory Y believes that people are naturally energetic, responsible, growth-oriented, self-motivated and interested in being productive.(3 marks)

(b) Explain what motivation theory underlines Mr Chong's instructions to his managers and state three reasons to explain why this theory may not be effective in motivating the staff in the research and development department. 2010 HKALE (5 marks)

Cannot work because:

- R&D people are more motivated by intrinsic rewards.
- R&D task needs more job autonomy
- R&D people usually do not like close supervision and routines.
- the performance of R&D people is mostly measured by outcomes rather than process.

(1 mark for each relevant point, max. 3 marks)

(3 marks)

With reference to McGregor's Theory X and Theory Y, state three assumptions that Richard holds in relations to managing his employees. Illustrate each with an example. 2013

X

- people inherently dislike work, e.g. employees of Wing Hung lack initiative
- people have little ambition and try to avoid responsibility, e.g. employees of Wing Hung follow instructions
- people prefer to be led, e.g. close supervision by Richard
- people prefer monetary rewards, e.g. above market level salary at Wing Hung
- people want stability and resist to change, e.g. follow rigid rules

With reference to two relevant assumptions of McGregor's Theory X and Theory Y, explain why strict control over the salespeople could make them work hard. (4 marks) 2015

Theory X assumption: 4

- people inherently dislike work and need to be closely monitored
- people try to avoid responsibilities and require rules and guidelines to make them work hard
- people have little ambition and need to be led

With reference to the assumptions of McGregor's Theory X and Theory Y,

(i) give one piece of information from the case to support Johnny's view that the staff of Sun Fung Company belong to the Theory Y type. (1 marks) 2018

The 4th paragraph:

Rose, the Human Resources Manager, responded, '...Our staff are positive, energetic and willing to take up responsibility.' 1

(i) suggest two other ways in which Sun Fung Company could motivate its staff. 2018

- more recognition, e.g. award, verbal praise
- more autonomy and challenging tasks: e.g. design the route and schedule of delivery
- provide training for employees' personal development
- maintain harmonious relationship with staff/social activities 4

Explain why Wai Fu Limited is faced with the problem of low staff morale with respect to: 2010 SP

(ii) McGregor's motivation theory (3 marks)

mismatch with staff needs: Mr Wong is basically a Theory X entrepreneur who assumes that employees are inherently lazy and will avoid work if they can, but the new staff might have higher career expectation (3)

Explain why the front-line employees of Moon Flower feel dissatisfied with reference to:

McGregor's Theory X and Theory Y (4 marks)(2011)

- Theory X: underpayment
- Theory Y: low autonomy

internal communication programme

Suggest three internal communication programmes that could enhance the employee relations of a large enterprise. 2018

Internal communication programmes: 6

- mentorship programme
- induction programme
- regular staff meeting
- social gathering
- employee attitude survey/staff suggestion programme

Suggest two measures by which the situation of lack of coordination among Moon Flower's employees can be improved. (4 marks)(2011)

- formal and regular meetings
- written rules and procedures
- informal mechanisms

5e Suggest two internal communication programmes that could help the new waiters to adapt to the working environment. 2020 (4 marks)

Internal communication programmes:

- mentorship programmes
- induction programmes/orientation programme
- social gatherings

(2 marks for each relevant programme, max. 4 marks)

HRM function

(a) From the perspective of human resources management, explain the advantages and disadvantages of filling the senior posts in a company through internal

recruitment.(12 marks) HKALE 2012

- (a) Candidates should explain the advantages and disadvantages of filling the senior posts in a company through internal recruitment from the perspective of human resources management:

Advantages:

- recruitment: less costly 6
- selection: less screening is required
- placement: immediately available
- orientation: more familiar with the company
- training and development: opportunity for staff development
- maintenance: contributes to employee morale; internal staff tend to stay longer

Disadvantages:

- selection: limited choice
- orientation: existing staff less receptive to change 6
- training and development: blocks external innovative ideas
- maintenance: may lead to internal conflicts

(3 marks for each relevant disadvantage, max. 6 marks)

- (e) With reference to any three human resource management functions, illustrate how managing the barbers would be different from managing the hair stylists.

(6 marks) HKALE 2012

- (e) Differences:

HR functions	Barbers	Hair Stylists
Manpower planning	- demand depends more on environmental factors e.g. shop location and traffic	- more stable demand because normally they have loyal customers
Recruitment and selection	- selection criteria mainly focus on basic technical competency	- apart from technical competency, emphasis on factors such as customer base and more sophisticated skills
Training and development	- basic training in technical skills	- extensive training and development on a variety of skills
Evaluation	- consider speed as well as quality	- emphasis on customers' feedback
Compensation	- basic salary in addition to commission may be needed to meet the	- mainly commission; may consider profit-sharing

	minimum wage requirements	
Maintenance	- mainly motivated by monetary rewards	- the job content is also a strong motivator

(b) With reference to the functions of human resource management, describe three kinds of support that Kai Kee may provide to employees with mild intellectual disabilities. 2011 HKALE (6 marks)

(c) Support for employees with mild intellectual disabilities: 6

- job design: e.g. simplify procedures, provide work aids
- training and development: tailored training programs
- appraisal: tailor-made appraisal criteria/standards
- motivation: sensitive to their feelings, avoid discrimination
- placement: assign duties in accordance with their competence
- employee health and safety: modify facilities to provide higher safety standards

(2 marks for each relevant kind of support, max. 6 marks)

(c) Discuss three advantages in human resource management if PMP subcontracts its delivery work to outside parties. 2010 HKALE

(6 marks)

7. (c) Advantages in human resource management:

- save costs in recruitment and training
- reduce management workload on performance appraisal and evaluation
- reduce disputes between management and employees
- less liabilities for employee in case of industrial accidents

(2 marks for each relevant point, max. 6 marks)

7

(a) Discuss three human resource strategies that the restaurant could introduce so that its existing staff will improve their service. 2008 HKALE (6 marks)

Human resource strategies:

- training: train existing employees how to serve better and build up relationship with customers
- appraisal: adding relationship building and quality of service as major criteria for evaluation
- compensation: extra reward for relationship building and good service
- discipline: discipline bad behavior in servicing customers

(2 marks for each relevant strategy, max. 6 marks)

(b)

Discuss how the company could tailor its human resources management functions to support the development of the new recruits. (20marks) (2011)

Human resources management functions:

- orientation: communication of the company's expectation
- training: specialist training for key departments of the company
- development: generalised development for senior management position
- placement (job rotation): placement during their career path
- compensation: performance-based reward system; promotion as reward; reward highly competitive as compared to the market
- performance appraisal: frequent feedbacks

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) (2014)

Ways:

- Manpower planning: e.g. online shopping to reduce manpower need
 - Compensation: revise total compensation package to make it more attractive e.g. more paid breaks
 - Recruitment: e.g. open up more recruitment channels; use incentive to attract referrals
 - Performance appraisal: e.g. set fair and clear performance standards to reduce turnover rate
 - Training and development: offer systematic training and attractive training allowance; set promising career development plan
 - Employee motivations: maintain harmonious relationships; build up a good employer brand and image 3@
- a. With reference to the functions of human resources management, suggest support measures that the chain could provide to employees with mild mental and physical disabilities. (12marks) (2016)**

Support measures:

- Staffing and placement: e.g. assign jobs and duties according to staff's abilities
- Training: e.g. tailor-made training programmes to facilitate staff's adaptation

learning and practice

- Performance appraisal: e.g. give more frequent feedback, set realistic, not too hard performance standard
- Compensation and benefit management: e.g. provide special allowances, ensure an equitable compensation system to maintain their positive working attitude
- Managing relations and motivation: e.g. be sensitive to their needs and feelings to avoid discrimination, enhance their self-image

3@ → MAX 12

(a) From the perspective of human resources management, identify two possible adverse consequences of crew members' low morale to Skyline Airways. (4 marks) (2012)

Adverse consequences:

- higher absenteeism / labour turnover
- lower job satisfaction
- poor performance due to lack of motivation

(2 marks for each relevant consequence, max. 4 marks)

Financial management

ACCOUNTING RATIO

(15 marks)

6. (a) Explain how a company can make use of accounting information in financial management. (13) 2011 HKALE

(a) Candidates should explain how a company can make use of accounting information in financial management:

- Monitor revenue items in day-to-day operations. e.g. sales budgets and sales reports, operational budget
- Help control expenses, e.g. analysis of operational costs and estimate of future costs, various expense-to-sales ratios, breakeven analysis
- Provide reference for financial control and capital structure decisions, e.g. ratios on liquidity, activity, leverage, profitability
- Provide reference for capital investment decisions, e.g. payback period, average rate of return, net present value, internal rate of return of different investment projects

- Provide information for working capital management:
 - Cash flows, e.g. cash flow statement to scrutinize major sources and uses of cash and cash equivalents; cash budget to ascertain cash flow and liquidity position
 - Credit management, e.g. analysis of credit period allowed to account receivables
 - Stock control, e.g. inventory records

HKALE 2012

- (c) State the changes in three financial ratios immediately after Running Deer received and recorded the cash proceeds from the new share issue. (Note: Running Deer recorded the share issue in its books of accounts at the time cash was received from the investors.) HKALE 2012 (3 marks)

QUESTION 6

- (c) Changes in financial ratios:

- Debt-equity / Debt ratio would be lower
- Current / Quick ratio would be higher
- Return on equity would be lower
- Earnings per share would be lower
- Total asset turnover will be lower

- (d) Calculate (to two decimal places) the following financial ratios for EasyMeal:

2010 HKALE

(i) Current ratio

(ii) Gross profit margin

(iii) Total

assets

turnover

(3 marks)

(d) (i) Current ratio = $\frac{1.2}{0.9} = 1.33$

(1 mark)

(ii) Gross profit margin = $\frac{\{(10.2 - 8.7) / 10.2\} \times 100\%}{10.2} = 14.71\%$

(1 mark)

(iii) Total assets turnover = $10.2 / (1.1 + 1.2) = 4.43$ (1 mark)

- (e) In acquiring EasyMeal, explain two major types of financial ratios that need to be considered. 2010 HKALE (4 marks)

- (e) Major types of financial ratios to be considered:

- profitability ratio: find out whether EasyMeal is profitable
- leverage and equity ratio: find out the financial risk of EasyMeal
- activity ratio: find out whether EasyMeal has efficient operations on its assets
- liquidity ratio: find out whether EasyMeal has short-term cash flow problem

A retail chain uses accounting ratios and budget variance analysis to evaluate its performance.

(a) Illustrate with examples what aspects of the retail chain's performance could be evaluated by accounting ratios. (12 marks) (2013)

- liquidity (* **MUST**) ratios: measure the chain's ability to repay short-term debts (usually within one year), by using its current or quick assets, e.g. current ratio, quick ratio à e.g. ability to meet unexpected needs for cash
à e.g. extent to which a company can quickly liquidate assets to cover short-term debt
- debt management ratio / solvency ratios: measure the chain's use of financial leverage, e.g. debt ratio, debt to equity ratio Indicate the riskness of the firm's position à ↑ repayment burden
à ↑ risk of insolvency
- activity ratios / management efficiency ratios: measure how efficiently the chain utilizes its assets, e.g. inventory turnover, average collection period
e.g. measure whether the firm has fully utilize its inventory / trade receivables / assets to generate sales
- profitability ratios: measure the earning power of the chain, e.g. gross profit ratio, net profit margin
e.g. how much profit made by utilizing owners' investment
e.g. how much profit made out of a dollar of sales
e.g. how good the company's
e.g. The higher, the stronger the ability to make profit from conducting its operations

(a) List three different types of financial ratios. For each type, illustrate with a specific ratio how Hong Bau can evaluate the financial situation of the independent cake shops. 2007 HKALE

(6 marks)

(a) Types of ratios:

6

- liquidity ratios, e.g. current / liquid ratio: to analyze how quickly the shop's assets can be turned into cash as required
- profitability ratios, e.g. net profit ratio: to evaluate the earning capacity of the shop

- activity ratios, e.g. stock turnover rate: to analyze the efficiency of asset utilization
- leverage and equity ratios, e.g. capital gearing: to evaluate the financial stability and / or solvency of the shop
-

1. An airline company is considering enhancing the fringe benefits of its employees. In order to investigate the financial affordability of this measure, the company uses accounting ratios to evaluate its performance.

(a) Describe the aspects of the airline company's performance that could be evaluated using accounting ratios. 2017

- profitability: evaluate the income-generating power/earning power of the airline company (e.g. gross profit ratio, net profit ratio, return on capital employed)
- liquidity: evaluate the ability of the airline company to repay short-term debts using its current assets (e.g. current ratio, liquid ratio)
- solvency: evaluate the financial leverage and gearing of the airline company (e.g. gearing ratio)
- management efficiency: evaluate how efficiently the airline company utilizes its assets and resources (e.g. trade receivables turnover, trade payables turnover, total assets turnover)

4. A firm calculated its cost of goods sold for 2018 as follows:

	\$
Opening inventory	25 000
Add: Purchases	360 000
	385 000
Less: Closing inventory	50 000
Cost of goods sold	335 000

-
-
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-

(a) (i) Calculate the inventory turnover (in times, to two decimal places) of the firm for 2018. (2 marks)

(a)(i)

$$\text{Inventory turnover} = \frac{\$335\,000}{(\$25\,000 + \$50\,000)/2} = 8.93 \text{ times} \quad 2 \text{ marks}$$

4. A firm's credit sales and cash sales for the year 2017 amounted to \$350 000 and \$250 000 respectively. Its average trade receivables for the year 2017 were \$123 500. The trade receivables turnover of other firms in the same industry is around 5 times a year.

(a) Calculate the trade receivables turnover (to 2 decimal places) of the firm for the year (2018)

(2 marks)

(a) Trade receivables turnover: 2
 $\$350\,000 / \$123\,500 = 2.83 \text{ times}$

2a. What does the gearing ratio measure? 2020 (2 marks)

(a) Gearing ratio measures:

- the proportion of long-term borrowed funds to total equity of a business
 or = Long-term Debt / Total Long-term Capital
 or = Non-current Liabilities + Preference Share Capital / Non-current Liabilities + Shareholders' Fund

- the ability to meet long-term liabilities of a business
 (short-term x)
 (debt x) (1 mark each, max 2 marks)

In the meeting, Henry presented the following financial information for 2019:

	\$
Credit sales	25 180 000
Cash sales	10 860 000
Credit purchases	18 346 500
Cash purchases	657 000
Average trade payables	1 089 400
Trade payables turnover (industry average)	8.2 times

6a Calculate the trade payables turnover (in times, to two decimal places) of Sum Kee for 2019. 2020(2 marks)

(a) Trade payables turnover: 2
 $\$18\,346\,500 / \$1\,089\,400$
 $= 16.84 \text{ times}$

Limitation of accounting ratio

- (d) Explain three limitations in the use of financial ratios analysis to assess the profitability of Running Deer. HKALE 2012 (6 marks)

(d) Limitations:

- Running Deer and the market leader may have a different product mix
- Running Deer and the market leader may have different accounting methods
- Information from financial statements is incomplete and needs to be supplemented with qualitative information
- Financial ratios are lagging indicators and may not capture current developments

1. Outline two limitations of using accounting ratios to assess the performance of a company. (4 marks) (2016)

Limitations:

- Qualitative information cannot be reflected, e.g. staff morale
- Difficult to make comparison: e.g. different accounting policies or standards used by different companies, difficult to establish a benchmark (unique industry)
- Reflect the phenomenon/problem without explaining the causes (e.g. economics factors)
- Financial statements can be manipulated by "window dressing", not reflect actual performance
- Interpretation of ratios by different users may be different X
- Rely on past information which may not predict the future X 2@ → 4

Budgeting (purpose)

1. With reference to any three management functions, explain how budgeting is useful to the management of a company. (6 marks) (2012)

Budgeting is useful in:

- planning: forecast figures provide directions for formulating action plan
 - organizing: budget information assists resources allocation, cooperation and integration across various functional departments
 - leading: quantified indicators become specific targets for employees
 - controlling: budget figures serve as performance standards
- (2 marks for each relevant uses, max. 6 marks)

- 5.(a) Budgeting is an important financial function in a company. Explain two purpose

of food.(4marks) (2016)

Purposes:

- planning: provide directions for formulating plans to achieve company's goals
- organizing/coordinating: facilitate resources allocation and cooperation among departments
- leading: provide quantitative and specific targets for employees
- controlling: serve as standards for performance management (2 marks for each purpose, max. 4 marks)

Budgeting (limitation)

1. Describe three limitations of using budgetary control to assess the performance of a sales department.(6marks)(2015)

- business environment changes rapidly and the budgets may not be able to catch up accordingly
- budgeted sales results may be achieved through window-dressing
- the budgeting staff may have made unrealistic estimates
- non-quantitative achievements (e.g. good relationship with customers) are not revealed in the budgets

(Any 3, 2@ à 6)

(b) Describe two limitations of using budgetary control for the food truck business. (4 marks)(2018)

- the budget plan is based on estimates and hence the effectiveness of budgetary control depends on the accuracy of the estimates made
- the business environment changes rapidly, the budgets are rigid if they are not revised with the changing environment
- qualitative information are not shown in the budgets
- budgeting is only a management tool, it is not a substitute for management
- discourage efficient persons who can achieve targets exceeding the goals/employees' resistance/window-dressing/unrealistic estimates X
- expensive technique/training is needed X

variance

8(e) For (1) raw materials and (2) wages, suggest a reason for each to explain why there was a variance between the actual spending and the budgeted spending of Century Group in the last financial year. (2 marks)(2011)

- usage/wastage of raw materials is more than estimated
- usage/wastage of labour is more than estimated

1(b) Explain the possible causes of budget variance in the retail chain. (8marks)(2013)

- sales: e.g. keen competition, inappropriate merchandising
- inventories: e.g. wastage, change in prices, change in foreign exchange rates
- labour: e.g. change in wage rate and labour efficiency
- rental: e.g. change in rent level

5(b) List two causes of a favourable sales variance.(2 marks)(2016)

Causes

- actual selling price is higher than budgeted
- actual sales volume is higher than budgeted

(b) (i) What is an 'unfavourable sales-volume variance'? 2019 (1 mark)

actual sales volume is lower than budgeted sales volume

Suggest ways to deal with the unfavourable material variance and labour variance. 2020
(10 marks)

Variance	Way
Unfavourable material variance	<p>the actual price of material is higher than budgeted</p> <ul style="list-style-type: none"> - source cheaper materials - buy materials in larger quantities to obtain a higher trade discount
	<p>the actual usage of material is higher than budgeted</p> <ul style="list-style-type: none"> - provide more training to reduce wastage - apply appropriate control standard
Unfavourable labour variance	<p>the actual wage rate is higher than budgeted</p> <ul style="list-style-type: none"> - better planning on the production schedule to ensure sufficient labour supply - outsource part of the production to other regions with lower wage rate
	<p>the actual labour efficiency is lower than budgeted</p> <ul style="list-style-type: none"> - provide more training to enhance workers' efficiency - automation

(3 marks for each relevant way, max. 5 marks for each variance)

SOURCE OF FINANCING

Explain the advantages and disadvantages of using short-term funds to finance the purchase of long-term fixed assets. HKALE 2012

QUESTION 6

Marks

- (a) Candidates should explain the advantages and disadvantages of using short-term funds to finance the purchase of long-term fixed assets:

Advantages:

- easier to arrange, e.g. simpler procedure
- generally lower cost
- more diverse sources

5

(3 marks for each relevant advantage, max. 5 marks)

Disadvantages:

- may not be able to renew the loan
- higher risk in interest rate
- loan amount usually lower

5

If L & M Ltd decides to expand by setting up its own furniture store, list three sources of funding.

(3 marks) 2009 HKALE

- (e) Source of finance:

- issue of shares to new and/or existing shareholders
- bank loan
- personal loan from shareholders, relatives, etc.
- plowing back via retained earnings

(1 mark for each relevant source, max. 3 marks)

(3 marks)

Suppose you are the financial manager of a small business. Suggest how the business can obtain sufficient funds and manage its working capital during (i) the start-up stage and (ii) the growth stage. (25) 2007 HKALE

QUESTION 8

Marks

Candidates should distinguish the sources of fund of a small business between the two stages:

<i>Start-up state</i>	<i>Growth stage</i>	10
<ul style="list-style-type: none"> – Since there is no business track records and secured assets during business start-up, the sources of funds are mainly from personal savings, venture capitalist, friends (partners) and family members, institutional grants (e.g. government), suppliers credit 	<ul style="list-style-type: none"> – At the growth stage, sources are from internally-generated funds (retained earnings), additional partner's share contribution, factor receivables, borrowing from commercial banks (debt financing) 	15

(5 marks for each stage, max. 10 marks)

Suggest with reasons an appropriate type of financing for a company in each of the following: 2008 HKALE

(a) Purchase of raw materials

(8 marks)

(b) Purchase of capital equipment

(8 marks)

(c) Acquisition of another company

(9 marks)

QUESTION 7

Marks

(a) Purchase of raw materials:

8

- Short term financing should be used. Examples include trade credit from suppliers (for regular purchases), line of credit and overdraft facility (for incidental large orders).
- Main reasons:
 - short term credit readily available from suppliers
 - the amount involved is recurring and relatively small
 - matches with the cash cycle
 - low risk of liquidation in case of defaults

- (b) Purchase of capital equipment: 8
- Loan(s) from financial institutions (e.g. commercial banks) should be used. The length and amount of the loan(s) depend on the scale of the capital projects. The company may also enter into a lease with a lender or the supplier.
 - Main reasons:
 - greater amount of fund and longer funding period is required for the purchase of capital equipment
 - matching the flows of income and expenditure of the capital equipment
- (2 marks for an appropriate type of financing and 3 marks for each relevant reason; max. 8 marks)

1. Explain two advantages of using debt financing. (4 marks)(2011)

- Interest expenses are tax-deductible
- Avoid dilution effect
- Enjoy leveraging effect

7e) Other sources of funds:(2marks)(2011)

- invite friends and / or relatives as partners
- delay payment to creditors / speed up collection from debtors
- apply for bank loans / borrow money from third parties

List three sources of capital for raising \$100 million to finance the setting up of the organic food restaurants. (3marks)(2013)

- issue shares
- issue long-term bond
- borrow long-term loan
- set up joint venture

ESSAY: 重要

- 1.*** (b) A large company is facing short-term cash flow problems. Describe the funding sources that the company should seek. 重要 (10 marks) HKALE 2013

(b) Candidates should discuss the funding sources for a company facing short-term cash flow problems:

- Extend trade credit 延長向供應商賒數時間
- Borrowings: unsecured bank loans 短線貸款不用抵押, bank overdraft, secured short-term loans

- Factoring: sale of accounts receivable
- Sale of inventories 促銷存貨 at discounted price

(b) What are the problems of Petal Airways finances the purchase of planes for the budget airline with a short-term loan? Describe two of them. (2014) (4 marks)

Problems:

- It violates the matching principle- non-current sales should be financed by long-term funds
- It may not be able to renew the loan.
- The interest rate may be higher when the loan is renewed.

(2 marks for each relevant problem, max. 4 marks)

(b) Explain the criteria that the retail chain could use to evaluate whether to use debt or equity financing.(12marks)(2015)

Evaluation criteria	Debt financing	Equity financing
Leverage and gearing	-Higher leverage could magnify earnings but higher risk	-Lower leverage and lower risk
Repayment and liquidity / Risk	-Higher default risk -Pre-set repayment schedule and regular interest payments -Repayment of principal upon maturity	-Lower default risk -No repayment schedule and regular interest payment
Flexibility and control of fund usage	-Lower flexibility and control -Restrains imposed by creditors	-Greater flexibility and control -E.g. ploughing back retained earnings is a direct and simple way under the full control of the company
Dilution of control	-No	-Yes
Collateral	-Required	-Not required
Cost	-Interest expenses are tax deductible -No issuing cost / low administrative cost	-Dividend is not tax-deductible -High issuing cost / high administrative cost

Profit sharing	-No profit sharing: Pre-agreed interest and principal à no direct claim on future profit	-If the company is successful in the future, profit will be shared with new investors
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- company philosophy and value: accepted only if well explained

List three types of methods that Marco could use to finance his five-year expansion plan. Give one disadvantage of each of them. (6marks)(2017)

Method	Disadvantage
- self-finance: e.g. Marco can invest more capital into his business/use his profits for the expansion	- limited source of funds, the amount of funds raised is lower than other methods
- set up partnership: e.g. Marco can invite business partners to contribute capital	- difficult to find suitable partners/joint decisions/less flexible
- set up private limited company: e.g. invite friends or relatives to become shareholders of his business	- complicated and costly setup procedure
- long term debt: e.g. borrow loans from friends, bank or either financial institutions	- fixed obligation to repay interest and principal

- (b) (i) Give two reasons why Fortune Cinema should not borrow further from banks. (4 marks) 2019
- (ii) If Fortune Cinema finds funding from the existing and new shareholders, which source of long- term financing is this? Explain two disadvantages of using this source of financing. (5 marks)

(i) Reasons:

- higher financial burden and risk: e.g. fixed obligation to repay principal and interest
- lower flexibility and control: e.g. banks may have restraints on fund usage
- difficult to solicit further borrowing/higher interest rate as the current gearing ratio is high

(2 marks for each relevant reason, max. 4 marks)

(ii) equity financing (1 mark)

Disadvantages:

- dilution of control
- profit sharing with new investors
- dividend is not tax-deductible
- high issuing/administrative cost

(2 marks for each relevant disadvantage, max. 4 marks)

2b. Explain two advantages of using equity financing over debt financing. 2020 (4 marks)

(b) Advantages:

- lower risk and financial burden: no repayment schedule and regular interest payment, dividend is varied
- greater control of the usage of fund
- collateral is not required

(2 marks for each relevant advantage with explanation, max. 4 marks)

NON FINACIAL FACTOR and financial factor affecting investment decision

Explain two non-financial factors that would support the installation of the robotic arms.(2018)

- **reduce staff's injury**
- enhance staff morale
- enhance company reputation/fulfill corporate social responsibility

Suggest one financial factor that will cause Wai Fu Limited not to make the decision based on the PV results. 2010

(c) (ii)

As the PV of employing a training professional is less than \$320000, the cost of hiring a training consultancy firm, the company should choose employing an in-house training professional. (1)

(ii) Factors:

- the company is faced with tight cash position (2) 不夠錢一筆過比
- OR high opportunity cost of the amount involved (2)

一早俾晒的錢,其實可以有拿來投資賺取收入

investment appraisal method

- (c) (i) Neglecting taxes and assuming Bauhinia Company's cost of capital is 12% per annum, calculate the NPV under Option A. Show your workings. 2011 HKALE (3 marks)

Suppose Susan decides to take over the fitness center in Sheung Shui and is not constrained by a lack of funds. Given that the NPV under Option A is smaller than that under Option B, and the IRR under Option A is higher than that under Option B, which option should Susan take? Why?

(5 marks) 2011 HKALE

- 7c (i) Net present value under Option A:
- $$\begin{aligned}
 & -\$11,000,000 + \$4,200,000 / (1.12) - \$450,000 / (1.12)^2 + & 2 \\
 & \$6,700,000 / (1.12)^3 + \$6,700,000 / (1.12)^4 \\
 & = \$1,418,162 & 1
 \end{aligned}$$
- (ii) Should adopt Option B: 1
 Reasons: 4
- The additional value added under Option B is larger although the IRR under Option A is larger.
 - NPV is more reliable since IRR only indicates the percentage return, not the absolute amounts.

- (ii) (d) Explain the factors that determine Bauhinia Company's cost of capital. 2011 HKALE (4 marks)

- (d) Factors that determine Bauhinia Company's cost of capital:
- market interest rate: as opportunity costs of funds (the higher the rate, the higher the cost of capital)
 - risks involved in the project: risk premium as the compensation for bearing risks (the greater the risks involved, the higher the cost of capital)
- (2 marks for each relevant factor, max. 4 marks)

- (d) (i) Calculate the net present value of offering the additional pick-up service, assuming that Britana requires a return of 10% per annum. Show your workings and correct all amounts to the nearest dollar. (Note: Ignore taxes and assume a project life of four years.) 2009 HKALE (3 marks)

- (ii) Based on your calculation, advise whether Britana should offer the additional service. 2009 HKALE

$$(d) (i) (\$1,500,000) + (\$100,000) / 1.1 + \$480,000/1.1^2 + \$750,000/1.1^3 + \$920,000/1.1^4$$

$$\text{NPV} =$$

$$(\$2,356)$$

(3 marks)

(ii) Based on the NPV criterion, Britana should not provide the additional pick-up service because the NPV is negative.

(Note: NPV is negative but small. Britana may be advised to offer the service because of the concern about corporate social responsibility.)

(c) Ignoring any tax implications, calculate (1) the payback period and (2) the net present value of the low-priced version of the 4D portable electronic game device. Show your workings. (4 marks)(2011pp)

Payback period of the low-priced version:

(1+) years

= 1.8 years

NPV of the low-priced version:

\$99 681 033

(i) Based on present value (PV) calculations, advise whether the company should hire a training consultancy firm or employ an in-house training professional. (Note: Assume the cost of capital is 8% per annum.) 2010 (2 marks)

(a) (i) 1st year

2nd year \$110 000/(1+8%)

3rd year \$120 000/(1+8%)²

\$100 000

101 800

102 800

ANS: 304733

3. Explain three drawbacks of the payback period method in capital budgeting that are not found in the net present value method. 2010 HKALE (6 marks)

3. Drawbacks:

- payback period method does not consider the time value of money.
- payback period method does not consider the cash flow of the project over its entire life.
- payback period method does not take into account the riskiness of the project.
- payback period method does not reveal added value of the project.

(2 marks for each relevant point, max. 6 marks)

(6 marks)

8.(b) A large bank is considering buying an expensive computer system to be used for training its front-line staff. Assume the Net Present Value (NPV) method is used to evaluate the purchase of the computer training system, identify the variables of the NPV formula and illustrate the meaning of each with an example.

(10 marks)(2012)

NPV formula and relevant examples:

- initial outlay: cost of purchase of the computer training system
- cash flows: cash inflows may include cost saved from hiring of trainer whereas cash outflows may include maintenance cost of the system
- discount rate: cost of capital, interest rate on loans or required rate of return
- project life: year of usage of the computer training system
- net present value: discounted monetary value of the computer training system, i.e. positive value means worth buying, negative value means not worth buying (1 mark for each variable and 2 marks for each relevant example, max. 10 marks)

(d) (i) Calculate the payback period of the on-line shopping project:2013

\$12m / \$4m

= 3 years

(ii) Why is it not appropriate to use the payback period method to evaluate the on-line shopping project:

- ignore time value of money
- fail to indicate the absolute worth of project
- ignore the cash flows after the payback period

(i)Based on Raymond's estimates of cash flows for the on-line shopping project, and assuming a discount rate of 8% per annum, calculate the net present value of the project (to the nearest dollar). Show your workings. (2 marks) (2013)

NPV = \$1 248 507

(ii) According to your calculation in (e) (i), explain whether the project should be adopted.(2marks) (2013)

Since the NPV is positive, the project should be adopted.

(a) For the investment project to be accepted, calculate the machine's minimum resale value (correct to the nearest dollar) at the end of the third year based on the net present value (NPV) model. 2013HKALE

(Note: Ignore taxes in your calculation.) (4 marks)

(b) Describe two advantages of using the NPV model to evaluate the investment project. (4marks) 2013HKALE

(a) Minimum resale value:

Present value of resale value to set NPV of the investment project to zero:

$\$1,000,000 - \$345,000/(1.1) - \$345,000/(1.1)^2 - \$345,000/(1.1)^3$

= \$142,036 要買到這個價錢才可回本, 但這個是present value

Resale value at the end of the third year: * * * TRICKY: 要計返去到第三年年尾的

future value, 以此價錢在三年後訂價

$$\begin{aligned} & \$142,036 \times (1.1)^3 \\ & = \$189,050 \end{aligned}$$

(b) Advantages:

- time value of money considered
 - indication of the project's value-added to the company
 - correct ranking for mutually exclusive projects
- (2 marks for each relevant advantage, max. 4 marks)

(d) In capital budgeting, list three of the factors that would be considered when evaluating the selling price of the restaurant business. 2008 HKALE (3 marks)

(d Factors: 3

- expected years of operation
- future stream of cash flows
- expected salvage value
- cost of capital
- certainty of the future stream of cash flows

(1 mark for each relevant factor, max. 3 marks)

Based on Simon's financial estimates, 2017

(i) Calculate the payback period of the robotic system (round to 2 decimal places). (2 marks)

(ii) Calculate the net present value of the robotic system (round to an integer). (2 marks)

(c) (i) Payback period:

$$\begin{aligned} & \$4\,000\,000 / \$1\,420\,000 \\ & = 2.82 \text{ years} \end{aligned}$$

(ii) Net present value:

$$\begin{aligned} & \left(\frac{\$1\,420\,000}{1.06^1} + \frac{\$1\,420\,000}{1.06^2} + \frac{\$1\,420\,000}{1.06^3} \right) - \$4\,000\,000 \\ & = -\$204\,323 \end{aligned}$$

(d) Based on the net present value calculated in (c)(ii) above, explain whether the

robotic system project should be accepted.(2 marks) (2017)

- the robotic system project should not be accepted
- The NPV is negative which means the net worth of the restaurant chain would be reduced if the project is accepted

6 Give two reasons for using the Net Present Value method instead of the Payback method to evaluate the online shopping project: 2016

- consider all cash flows beyond the payback period
- take into consideration the time value of money
- can assess the net worth of the project

(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) (2014)

Investment appraisal methods

- Payback period: evaluate the number of years required to recover the investment
- Net present value: use discounted cash flows to assess whether the project brings an increase in net worth
- Internal rate of return: use discounted cash flows to ascertain a rate at which NPV is zero.
- Accounting rate of return: use accounting approach to calculate the return rate of the project
3@ → MAX 10

(e) Other than the payback period method and the net present value method, suggest and explain one other capital investment appraisal method for evaluating the robotic system project. (2 marks)(Total: 18 marks)(2017)

- accounting rate of return: the average annual net profit earned from the project per dollar of investment
- internal rate of return: the discount rate at which the net present value of the project is zero

(b) Analyse the limitations of different capital investment appraisal methods. (10 marks

) 2019

(Total: 20 marks)

(b)

Capital investment appraisal method	Limitation	10
Payback period	<ul style="list-style-type: none"> - ignore time value of money/ignore the riskiness of the projects - ignore cash flows after the payback period - fail to indicate the absolute worth of the project 	
Net present value	<ul style="list-style-type: none"> - difficult to ascertain an appropriate discount rate - difficult to compare projects of different lives/risks/initial outlays - ignore the size of different projects 	
Accounting rate of return	<ul style="list-style-type: none"> - ignore time value of money - ignore the cash flows generated from the projects (use accounting profit rather than cash flows) - profits could be manipulated 	
Internal rate of return	<ul style="list-style-type: none"> - fail to reflect the increase in the company's value - may give conflicting answers when compared to net present value for mutually-exclusive projects - multiple IRR when there is negative cash flows during the project lifetime 	

(3 marks for the limitation of each method, max. 10 marks)

20
marks

(a) Assuming the company's cost of capital is 6%, explain whether Fortune Cinema should adopt the renovation project, based on the internal rate of return method. 2019

(2 marks)

c) the internal rate of return of the project (8%) is higher than the required rate of return (i.e. cost of capital 6%), the renovation project should be adopted (2 marks)

(c) Based on the accounting rate of return and the net present value of the robotic arms project, should Sun Fung Company accept the project? Justify your answer with one reason.(3 marks)(2018)

the project should not be accepted

- as the net present value is negative, the acceptance of the project will decrease the net worth of the company
- the accounting rate of return ignores the time value of money/cash flows

4. To determine a new market position, a fashion chain plans to develop a new product line. The initial cost of the development project is \$540 000 and it is expected to bring net cash flows of \$250 000, \$200 000, and \$150 000 at the end of the next three years respectively.

- a. Calculate the payback period of the development project (to one decimal place). (2 marks) 2020

Payback period:

$$\left[2 + \frac{90\,000}{150\,000} \right] = 2.6 \text{ years} / 2.6$$

(2)

- Correct answer □ 2 marks (No unit: acceptable)
- Correct answer, but wrong unit □ 0 mark
- Wrong answer, correct step □ 1 mark

- b. Other than the payback method, explain one capital investment appraisal method that also uses **net** cash flows for the evaluation of projects. 2020 (2 marks)

(a)(ii)

(2)

1 Full name	+	1 Definition	O R	1 Decision rule
Net present value	+	to calculate the <u>present value</u> of future <u>cash flows</u> net of initial outlays <u>Alternative answer:</u> to assess the impact on the firm's net worth brought about by the project	OR	accept the project if its net present value is positive
Internal rate of return	+	to ascertain a discount rate at which the net present value of the project is zero	OR	accept the project if its internal rate of return is higher than the required rate of return

- MUST be full name; Short form of name is NOT acceptable (□NPV, □IRR)
- Formula is NOT acceptable

Cash management

6 From the perspective of cash management, suggest two ways to cope with Ming Kee's liquidity problem. (2016)

Ways:

- defer payment
- obtain short-term loan: e.g. bank overdraft
- match the timing and amount of cash inflows and cash outflows (e.g. fully utilize disbursement flow of cheques)

X speed up accounts receivables

2@ □ 4

Operating cycle/cash cycle

(a)(i) Describe the operating cycle of the food truck business. (2 marks)(2018)

Operating cycle:

- the food truck buys materials, converts the materials into desserts and collects cash from selling the desserts

(ii) Give one reason why the cash conversion cycle of the food truck business is relatively short.(2 marks)(2018)

- the average time required to collect money from customers is shorter as sales are mainly made on cash basis

Robin may enjoy better credit terms as he is an experienced chef who may have good relationship with the suppliers

AR/ CREDIT POLICY

1. Suggest two ways in which a company, skyline could manage its accounts receivable effectively. (4 marks) (2010)

Ways:

- establish a workable credit policy to screen customers before granting credit
- establish a written policy and let each customer know in advance the company's credit terms

- establish practice of sending invoices for payment promptly
- establish immediate follow-up measures for those accounts that are overdue

3. With reference to any two elements of credit policy, explain how can tighten its credit to retailers. (4 marks)2015

(a)

Elements of credit policy:

- credit terms: lower credit limit, shorten credit period
- credit standard: set a higher standard to screen out retailers with poor creditworthiness
- collection policy: take measures to expedite debt collection procedures, e.g. sending reminders

(a) With reference to your answer to (a) above, comment on any two elements of the credit policy of the firm. (4 marks)2018

Comments:

- credit terms: e.g. more lenient, longer discount period, lower discount rate, longer credit period
- credit standard: e.g. lower than that of the other firms in the same industry, grant credit to customers with lower credibility
- collection policy: e.g. more lenient in debt collection procedure

(2 marks for each relevant comment, max. 4 marks)

(b) Beside more careful selection of independent cake shops, describe two other methods that could help Hong Bau lower the amount of accounts receivable.

2007 HKALE (4 marks)

(b) Methods:

4

- discount for early payment
- shorten credit period
- strengthen collection administration and policy

5C

2011 HKALE

1. Explain three factors that a company needs to consider when deciding on granting credit to a new customer. (6 marks) 2011 HKALE

QUESTION 1

Factors to consider in granting credit to a new customer:

6

- Character: customer's reputation for meeting obligation in good faith
- Capacity: the basic financial ability of a customer to repay
- Capital: a measure of a customer's assets that can be used to repay the debts
- Collateral: assets pledged as security for debts
- Conditions: the situation of the customer and of the economy in general

(2 marks for each relevant factor, max. 6 marks)

Explain any three components of the '5Cs' of the credit standard that a bank considers when deciding whether to grant credit to a borrower. (6 marks) 2017

Factors:

- capital: whether the borrower has sufficient capital to back up his debt
- capacity: whether the borrower has ability to meet the obligation (sufficient cash flows)
- collateral: whether the borrower has a sense of responsibility to repay the debt (creditworthiness)
- condition: general economic environment, purpose of borrowing the loan

Explain three types of factors that a company would consider to evaluate the risk of granting credit to a customer. 2013

- Factors to evaluate the risk of granting credit
- Character/ Credit History/ Credit Record/ Credit rating, i.e. having a sense of responsibilities to repay
 - Capacity, i.e. having sufficient cash flow to meet repayment, e.g. stable income
 - Capital, i.e. having sufficient capital to back up his debt
 - Collateral i.e. having assets to secure the debt
 - Condition, i.e. having good industry outlook or favorable economic environment

inventory management

-
- (ii) Explain the main objective of inventory management. (2 marks) 2019
-
- (a)(ii) objective: to maintain an adequate level of inventory at minimum inventory costs

EOQ

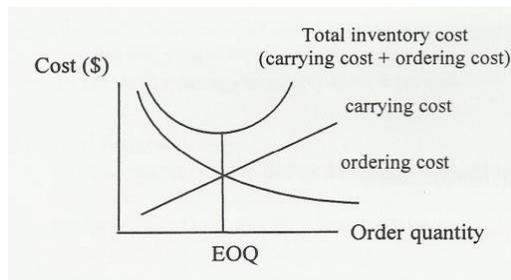
(a) Draw a diagram to show how the economic order quantity (EOQ) is determined.

(2 marks)

(b) A computer shop forecasts an annual sales of 4,000 units of notebook computers. The purchase cost is \$5,000 per unit and the carrying cost per year is 10% of the purchase cost. The ordering cost is \$1,600 per order.

Calculate the EOQ for the computer shop. 2009 HKALE
(3 marks)

1. (a)



(2 marks)

$$(b) \sqrt{\frac{2 \times 4,000 \times 1,600}{5,000 \times 10\%}} \\ = 160 \text{ units}$$

(i) Explain how the use of the EOQ model can reduce inventory cost.

(ii) Using the EOQ model, calculate the optimal order quantity of oysters (in dozens) for Platine. 2012

(a) (i) At the EOQ, the total inventory cost (i.e. ordering cost and carrying cost) is minimal among all possible quantities.

$$(ii) \quad EOQ = \sqrt{\frac{2(400)(800)}{16}} \text{ dozens} \\ = 200 \text{ dozens}$$

(b) (i) State three assumptions of the simple EOQ model. (3 marks) HKALE 2013 Q6

(ii) Based on the data given by Edmond, calculate the EOQ for the most popular brand sold by Carry-Easy. (2 marks) HKALE 2013 Q6

(a) (i) Assumptions:

- constant demand spreading over the period evenly
- constant purchase price
- constant ordering and holding costs
- constant lead time

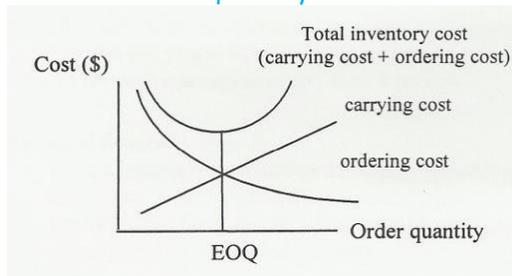
(1 mark for each relevant assumption, max. 3 marks)

(ii) $EOQ = 346.4$ cases (346 or 347)

$$\frac{2(600 \times 12)(2000)}{20 \times 12}$$

12. (a) With a diagram, show how the Economic Order Quantity of a product is determined. (2 marks) (2014)

Economic order quantity:



(a)(i) Using the Economic Order Quantity model, calculate the optimal order quantity of beverages (in boxes) for Ming Kee. Show your workings. (2 marks) (2016)

Economic order quantity (EOQ)

$$EOQ = \frac{\sqrt{2 \times 500 \times \$5625}}{\$10} \quad \text{OR} \quad EOQ = \frac{\sqrt{2 \times (500 \times 12) \times \$5625}}{\$10 \times 12}$$

$$EOQ = 750 \text{ boxes (2)}$$

(ii) Based on the optimal order quantity calculated in (a) (i), state which inventory cost component contributes to the reduction in total inventory cost. Explain why. (2 marks) (2016)

Ordering cost (1) Lower order frequency, from 10 times to 8 times in a year (1)

7.A newly-established company selling bicycles is considering using the Economic Order Quantity model to find the optimal order quantity of bicycles in order to minimise the total inventory cost. It also plans to distribute the bicycles to its customers through middlemen.

(a) Describe the cost components for determining the Economic Order Quantity of bicycles and explain how the total inventory cost can arrive at its minimum under this model. (8 marks) 2018

Cost components:

- carrying cost: cost incurred on holding inventory in hand, e.g. opportunity cost of money tied up in inventories, obsolescence, etc.
- ordering cost: cost incurred on placing and receiving the order, e.g. costs of communicating with supplier, transportation cost, etc.

Minimise total inventory cost:

- as the order size increases, fewer orders are required which leads to a decrease in the total ordering cost, whereas the average amount of inventory in hand will increase, resulting in an increase in total carrying cost
- the optimal order quantity represents a compromise between these two costs, i.e. when total ordering cost equals to total carrying cost, the cost of inventory is minimised

Re ordering point

(b) Assuming there are 360 days in a year and no safety stock is kept, calculate the re-order level of the product. (2014)

Re-order level:

$(7200/360) \times 8 = 160$ units

2

5d Annual demand is a factor affecting the re-order level of coffee beans. Give one other factor and explain how it would affect the re-order level. 2020 (2 marks)

(b) Factors:

- lead time: the longer the lead time, the higher the re-order level
- safety stock: the higher the level of safety stock, the higher the re-order level (2 marks for each relevant factor, max. 2 marks)

2

Working capital management

Suppose you are the financial manager of a small business. Suggest how the business can obtain sufficient funds and manage its working capital during (i) the start-up stage and (ii) the growth stage. (25) 2007 HKALE

QUESTION 8

Marks

Candidates should distinguish the management of working capital of a small business between the two stage:

<i>Start-up state</i>	<i>Growth stage</i>	
<ul style="list-style-type: none"> - The key is to strike a balance between risk and profitability while at the start-up stage, risk of insolvency is more immediate concern - Need cash to meet predictable expenses, e.g. paying employees and suppliers - Keep a healthy position on the credit standing of the company, strict control of accounts receivables and payables - Keep less inventory to help enhance liquidity 	<ul style="list-style-type: none"> - More funds required to invest in fixed assets, e.g. machinery, equipment and R&D - Funds are also required to build inventory levels so inventory management is important in a small business short-term financial situations - At the growth stage, small businesses may encounter collection problem. Need to manage the granting of credit by balancing profitability and liquidity 	10
		15
		— —

(8 marks for each stage, max. 15 marks)

5. Suggest three ways in which a manufacturer can adjust his policy on working capital management to cope with an economic recession. 2010 HKALE (6 marks)

5. Ways:

- lower inventory level
- tighten credit policy
- speed up collection of accounts receivables
- defer payments for accounts payables

(2 marks for each relevant point, max. 6 marks)

(6 marks)

From the perspective of working capital management, suggest two ways in which Grassland can improve its cash flows. 2014 Q6 (d)

(d) Ways:

- Use marketing tactics to speed up the stock turnover
 - Tighten up or revise the credit policy such as shortening the credit period to push for early payment
 - Delay payment to trade creditors
- (2 marks for each relevant way, max. 4 marks)

6b With reference to any three components of working capital, suggest one way for each component to improve the cash position of Sum Kee. 2020 (6 marks)

- (a) **Ways:** 6
- Trade payables: delay payments to trade creditors
 - Trade receivables: tighten credit policy, e.g. shortening credit period, offering discounts to encourage early repayment.
 - Cash and bank: match the timing and amount of cash inflows and outflows, obtain short- term loan, encourage cash sales
 - Inventory: use marketing tactics to speed up sales/improve inventory control (2 marks for each relevant way, max. 6 marks)

Risk management

RISK

Define pure risk and speculative risk. (2 marks) 2017

- pure risk only involves the possibility of loss or no loss
- speculative risk involves both the possibilities of gain as well as loss

- a. With reference to any two types of macro-environmental factors, explain why the risk to the airline business is higher than many other industries. (2014) (4 marks)**

Macro-environmental factors:

- Physical: e.g. vulnerable to a wide range of weather conditions
- Political: e.g. subject to changes in immigration regulations of various countries
- Technological: e.g. technical faults and accidents could be costly
- Economic: e.g. vacation travels decrease substantially during economic downturn

Risk management strategies

(e) In view of Susan's decisions, advise two other risk management strategies that Bauhinia Company may adopt to cope with customers' potential claims for injuries from facial treatment. 2011 HKALE (4 marks)

- (e) Other risk management strategies: 4
- risk reduction: thoroughly review skin care treatments and equipment and formulate preventive measures to minimize risks in injuries
 - risk absorption: set aside funds for damage claims
-

2. Explain two risk management strategies which a bus company may adopt to manage the risk of its buses being involved in traffic accidents. (4 marks) 2008 HKALE

QUESTION 2	Marks
Strategies:	4
- assumption, e.g. set up a fund to meet the financial burden of losses caused by traffic accidents	
- reduction, e.g. better training of drivers and maintenance of buses	
- transfer, e.g. taking out insurance	
	<hr style="width: 10%; margin-left: auto; margin-right: 0;"/>

a. Illustrate three risk management strategies with respect to the operation of a hotel. (2010)

risk avoidance: e.g. avoid offering rooms to those guests whose identities are suspicious.

risk prevention/reduction: e.g. protective security system.

risk assumption: e.g. accept minor damage like broken glasses in food and beverage outlets, put aside a reserve fund to cover loss.

risk transfer: e.g. buying insurance against theft and fire

Suppose the company finally got the distribution rights. Apart from the risk reduction strategy, discuss the other risk management strategies that the company can adopt for distributing the electric car. (12 marks)(2011)

-risk avoidance: give up some high risk segments, such as staying away from politically unrest regions

- risk assumption: absorb the loss, such as setting up a reserve fund
- risk transfer: transfer the risk to a third party, such as by taking out insurance

(d) With reference to three risk management strategies, explain how Mr Wong can manage risks of setting up a frozen yogurt shop. (abt the daily operation) (6 marks) 2013HKALE Q5

(d) risk reduction: collect more market information about consumer demand for better planning of production

to reduce costs/ reduce wastage

risk transfer: invite partners to join the business to share costs

risk absorption: ensure there is sufficient fund to cover losses especially in the first few years of business can be covered

Suggest two risk management strategies Centralwash could adopt to deal with the risk in (d) (i) above.(4 marks) (2016)

risk management strategies

- Risk assumption: bear the cost of the damaging dishware by compensating customers using reserve fund
- Risk reduction: e.g. provide training to workers on effective dishwashing so as to reduce the chance of damaging
- Risk avoidance: e.g. only accept customers using plastic dishes
- **Suggest two risk management strategies for handling the risk of food poisoning faced by Yummy Group. (4 marks) 2013**
 - - risk avoidance: e.g. avoid using easily infected food ingredients
 - - risk reduction: e.g. source raw materials from reliable suppliers
 - - risk transfer: e.g. take insurance to cover the losses resulting from food poisoning
 - - risk assumption: e.g. assume the losses resulting food poisoning

Explain two risk management strategies a convenience store could adopt to deal with shoplifting.2015

Risk management strategies:

4

- Risk reduction: e.g. install anti-theft equipment
- Risk transfer: e.g. buy theft insurance
- Risk assumption: e.g. bear the losses on stolen items

Explain three types of risk management strategy that a shipping company may use to deal with the risk of pirate attacks and kidnapping. (6 marks) 2018

Risk management strategies: 6

- risk reduction: e.g. install defense device, recruit armed security forces / avoid using the shipping routes that are easily exposed to pirate attacks and kidnapping
- risk transfer: e.g. take out marine insurance which covers the risk of piracy and kidnapping
- risk assumption: e.g. pay the ransom out of company's reserve in case of kidnapping
- risk avoidance X

5a Suggest two types of risk management strategies Happy Café could use to deal with the risk of the operating losses mentioned by Francis. 2020 (4 marks)

- (a) Risk management strategies: 4
- risk avoidance: e.g. avoid setting up branches in the areas with intensified competition
 - risk reduction: e.g. collect information on customers' preferences for better formulation of marketing strategies
 - risk assumption: e.g. set up a reserve to cover the operating losses

Reasons of risk insurable/non-insurable

Give three reasons why the risk of economic fluctuation faced by Skyline Airways is uninsurable.(6 marks)(2012)

Reasons:

- difficult to measure the probability of financial loss
- the loss is not accidental
- law of large number is not easily applied
- the risk is speculative

(c) Explain, with examples, three reasons why some risks cannot be insured by Hong Bau when it runs its own cake shops. 2007 HKALE
(6 marks)

(c) 8 Reasons:

6

- speculative risks, e.g. changes in economy, customer taste, market, government regulation
- no insurable interest, e.g. personal property / possessions of staff
- losses too small and / or frequent, e.g. unsold bread every day
- results subject to the control / manipulation of Hong Bau, e.g. profit pr loss on operations
- losses difficult to measure or quantify
- unpredictable risks

a. Give a reason why the risk of frequent damage to dishware is non-insurable.(2 marks) (2016)

- the loss is too trivial (small) or frequent (1)
- administrative cost incurred by the insurance company is higher than the premium earned (1)

3. In view of keen competition, a food delivery company wants to insure against the risk of operating losses. (2019)

However, an insurance agent advises that this risk is non-insurable.

(a) Give two reasons why the above risk is non-insurable.

(4 marks) 2019

a) Reasons:

- the risk is speculative: there are possibilities of both loss and gain from operations
- the loss is not accidental: the operating loss is controllable
- difficult to measure the probability of operating loss: difficult for the insurance company to calculate the premium

(2 marks for each relevant reason, max. 4 marks)

INSURANCE

3. However, an insurance agent advises that this risk is non-insurable.

(b) Explain one type of insurance that the company should take out to cover the risks faced by its employees. 2019

(2 marks)

Types of insurance:

- employees' compensation insurance: e.g. to cover the medical expenses and compensation claims if the employees were injured at work
- motor insurance: e.g. to cover the loss due to traffic accidents

(2 marks for each relevant type of insurance, max. 2 marks)

2. Explain two types of insurance that a restaurant should take out. (4 marks) (2014)

Types of insurance:

- Public liability insurance: to cover compensation for customers' injuries inside the restaurant
- Fidelity insurance: to cover losses arising from employees' dishonesty such as fraud, forgery, and embezzlement
- Employees' compensation insurance: to cover compensation for employees' injuries
- Comprehensive insurance: to cover losses on fire and theft losses, etc

(2 marks for each relevant type, max. 4 marks)

(b) Briefly explain two types of liability insurance a theme park should take out. (4

marks) 2017

Liability insurance:

- public liability insurance: e.g. protect the theme park against accidental injury or loss of personal belonging of the visitors
- employees' compensation insurance: e.g. protect the theme park against insurance claims arising from injury to their employees at work
- product liability insurance: e.g. protect the theme park against personal injury to third parties or damage to property of third parties caused by their products

Others

SMART GOAL (PAPER 1)

With reference to three characteristics of good objectives, explain why setting good objectives for Fun Fun Maths's tutors will make them less easily offended. (6 marks) HKALE 2013 Q7

(b) Characteristics of a good objective:

- specific: relevant and clearly stated e.g. better results in public exam
 - measurable: objective, not rely on subjective feelings e.g. results improve by 10%
 - attainable but challenging 也可，但注意，realistic與 attainable相似，所以不可一齊答，最好避開不答SMART的 R)
 - realistic: reasonable and achievable 與現實環境有關 e.g. set improvement target according to the abilities of students
 - time-bound: expected schedule of output e.g. public examination results in 2 years
- 2@

Key business function (paper 1)

(c) Suggest three measures that Nancy can adopt to improve the coordination between the purchasing department and the marketing department. 2010 HKALE

(6 marks)

8.(c) Measures to improve coordination:

- informal mechanisms, e.g. social gatherings
- clear written rules, regulations, procedures
- coordinating department 企業傳訊部/liaison officer within department

- committee/task force

Departmentalization

Suggest two advantages to a multi-national corporation of adopting divisional departmentalization by geographical location. 2013

- easier to cater for each region's needs/ tailor for customers/ concentrate in one location
- quicker to respond to the local market
- more accurate assessment of each region's performance
- facilitate the training of generalists