

IB Business Management
Paper 2 Practice Case Studies

UNIT 1

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Section 1.5 – Granularity

You will find your case study, questions, and answers below. Each case study is designed to give teachers and students multiple options for assessment, typically with at least 20 marks worth of Paper 2 style questions to choose from. For full unit packs with case studies and questions covering every IB Business Management syllabus content standard, visit ibbiz.org.

The ibbiz.org unit packs cover every content standard on the entire syllabus at least once, and the bundle of all 5 units contain over 100 case studies, complete with exam-style questions and suggested answers. *This case study on Merle of Sandwich is part of the Unit 1 pack of 22 case studies.*

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16. Grainularity

Grainularity is a food truck run by partners Paul and Aziz. Focusing on the health food market, the two sell 10 dishes that are vegan and/or gluten free. Their most popular item is their tortillas that they make from quinoa and other grains. The partners originally only sold their unused tortillas at the end of the day, but they now prepare them for the customers who come to Grainularity just for this item, and the tortillas sell out quickly each day.

Aziz then arranged to sell tortillas at a local grocery store on a trial basis, and they hired a part time worker to help them produce the tortillas as needed. Sales were strong enough that the owner wants Grainularity to start supplying the tortillas to her other two stores. While Aziz is enthusiastic about the additional revenue, Paul is concerned about scaling up operations too quickly. Supplying the one grocery store is already pushing their limits in terms of cooking capacity and workload.

Supplying more to the grocery store would require hiring additional employees for food preparation so that Paul and Aziz could focus more time on other areas of the business. Paul also believes that they would need to hire an accountant, purchase additional equipment, and rent space for a permanent kitchen. This expansion could allow them to use the new space to supply the truck with tortillas and have operations in the truck itself focus on other menu items, but it would almost certainly require external financing. Both partners have already invested significant amounts of their personal savings in Grainularity, and interest rates on small business loans are rising.

Question	Marks
A. Define the term economies of scale.	2
B. Explain two sources of economies of scale that could come from Paul and Aziz expanding their business.	4
C. With reference to Grainularity, explain the difference between internal and external growth.	4
D. Explain an advantage and a disadvantage to Grainularity if it were to use franchising as a method of expansion.	4
E. Explain two ways in which it is possible for a business like Grainularity to experience diseconomies of scale as it expands.	4
F. Discuss the benefits of Grainularity becoming a larger organization.	10

Suggested answers

A. Define the term economies of scale.	2
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A reduction in the average cost of production as a business increases its scale of operations.

B. Explain two sources of economies of scale that could come from Paul and Aziz expanding their business.	4
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Answers may include the following, but are not limited to these examples:

- Purchasing: bulk buying ingredients
- Technical: cost of computer systems, equipment, or any other capital would be spread over a larger volume of units produced
- Financial: More likely to get a lower interest rate on loan or better terms from an investor as they produce more and increase revenue
- Marketing: Marketing spending may stay the same, even though production increases
- Managerial: New staff hired to manage a given business function may be a more capable specialist in that area than Paul or Aziz

C. With reference to Grainularity, explain the difference between internal and external growth.	4
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Internal (or organic) growth is when a business expands within its own means, without working with a partner organization. In the case study, they are pursuing external growth by selling more tortillas from the truck, and it would still be internal growth if they rented a space to help with supplying more tortillas to the grocery stores.

External (inorganic growth) is when a business expands by combining efforts with a partner organization. In this case study, there is no example of external growth. They would have to use franchising, mergers or acquisitions, strategic alliances, or joint ventures for it to be external. DO NOT accept students suggesting that supplying the grocery store is a strategic alliance - the grocery store is simply a customer of Grainularity in this arrangement, not a strategic partner.

D. Explain an advantage and a disadvantage to Grainularity if it were to use franchising as a method of expansion.	4
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Advantages:

- Startup costs and most of the risks borne by franchisees. This could be important because Grainularity doesn't have a lot of financing at the moment.
- Franchisees (probably) have experience in industry, increasing their chances of success.
- Faster/wider expansion of brand name (though this could be a disadvantage if the franchisee operates in an area too close to the original food truck and thus takes some business away from Paul and Aziz)
- Franchisee pays royalties and fees, so it can be a good additional stream of income, and also help to finance things like a rental kitchen or capital expenditure

Disadvantages:

- Loss of control of operations
- Reputational risk from franchisee actions
- Loss of touch with customers
- One more thing for Paul and Aziz to keep track of. They wouldn't be actively managing the franchise, but they are quite busy with the original food truck, and maintaining oversight of a franchise (or franchises plural) could be burdensome.

E. Explain two ways in which it is possible for a business like Grainularity to experience diseconomies of scale as it expands.	4
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Answers may include the following, but are not limited to these examples:

- Communication problems: With more employees, it is harder for owners to communicate effectively to everyone.
- Lack of coordination: Only 2 people and one truck to coordinate now, but partners will need to coordinate an additional facility and more staff if they expand.
- Slower decision making: With loss of control over some functions of the business, partners may need to take more time to make decisions, or rely on others to make decisions.
- Production problems: with more equipment, there is a greater number of things that can conceivably go wrong.

F. Discuss the benefits of Grainularity becoming a larger organization.	10
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Benefits may include, but are not limited to:

- Lower average cost of production
- Expanded customer base
- Frees Paul and Aziz to focus on what they do best, rather than everything

- Higher revenues and profits
- Greater access to finance
- Diversification of business and revenue streams

Drawbacks may include, but are not limited to:

- Additional need for finance, which is likely to be external, and interest rates are increasing
- Challenges in coordinating more business activities, including second facility beyond truck
- May increase partners' already high workload
- May slow down decision making