

IB Business Management – Paper 1 Case Study Pack
Case Study: ELE PLC
HL Mock examination



For November 2022 examinations

1 hour 15 min¹

INSTRUCTIONS

- Do not open this examination paper until you have been instructed to do so.
- Students of St. Andrew's Cathedral School will need a clean copy of the ELE PLC case study for this examination paper.
- A clean copy of the Business Management formulae sheet is required.
- Answer any **two** questions from Section A.
- Answer **the compulsory** question from Section B.
- This examination does not contain a Section C.²
- You are permitted to use a calculator for this examination paper.
- Total marks available: 40 marks.³

Please note the following points apply to the May 2022 examinations:

¹ Paper 1 (HL) has been reduced from 2 hours 15 mins to 1 hour 15 mins.

² Section C has been removed,

³ Paper 1 (HL) has been reduced from 60 marks to 40 marks.



15/10/22

4 PAGES / PÁGINAS

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Candidate name: / Nom du candidat: / Nombre del alumno:

BM	CSP	PI	HL
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At the start of each answer to a question, write the question number in the box using your normal hand writing / Avant de répondre à une question, inscrivez son numéro à la main dans la case appropriée / Al comienzo de cada respuesta, escriba a mano el número de pregunta en la casilla.

Example
Ejemplo

27

27

Example
Ejemplo

3

3

2

(a) Opportunity: multinational organisations can quickly gain monopolies in foreign countries due to their relative size and economies of scale & when compared to foreign competition. ELE can use their size to quickly become established in many cities, offering a wider range of products, which would enable them to grow quickly with little bother from the small, local car rental businesses. These businesses will not be able to attract loyal customers as they operate in "one or two" cities, meaning an ELE monopoly is likely. => not on MS but valid opportunity

Threat: The car rental business in India is not yet well established. While this makes barriers to entry relatively low, it also means that the potential market size could remain low, limiting demand, and hence ELEs ability to attract loyal customers. This is made even more likely by the limited 4% of cars which are rental cars. => not in MS but valid threat with application (4)

(b) The increasing popularity of electric cars is & an economic, social and legal threat on the STEEPLE framework. As they are becoming cheaper and legislation in banning gasoline cars by 2030 (according to Oliver's report), as well as the changing social attitudes towards climate change, the gasoline market is slowing down from 2022 onwards, according to Oliver's report. \Rightarrow no info for 6-~~market~~ market?

The decrease in ~~customer~~ demand for gasoline is likely to reduce ELE PLC's economies of scale over the long term, particularly in their gasoline division. This will increase average costs, as it is likely they will need to convert or sell various stores to out of their "700" gasoline stores. The same goes for their car rental division, whereby the ~~average~~ expenditure is likely to increase.

Furthermore, sales revenue, by nature will also gradually decline, as indicated by Oliver's report. The increasing popularity of electric cars will likely reduce demand for gasoline, as well as gasoline-powered rental cars, meaning that the sales revenue of the industry (target market) will decline, and with that, also the sales revenue of ELE, even if their selective market share, within the already saturated market remains constant.



Finally, the rising popularity of electric cars will likely force ELE to undertake costly R&D (capital expenditure) in order to cope with the decreasing demand. These costs over the short term would likely be very precarious to ELE's cash liquidity, and projects like the India expansion or especially In3T, will demand large upfront capital costs.

⇒ I'm not sure, I would say around a 5 → I have 3 reasons each with application, but maybe not strong enough?

3

(a) ⇒ takeovers are an external method of growth, whereby a business may acquire another in an aim to expand operations or grow their market share. There two ideas are either horizontal or vertical (expand market share) or conglomerate / lateral (diversify) or vertical, which allows organisations to take more control over their supply chain.

Question part b: Scheme does not have ELE requirements but has application
⇒ takeovers are seen as a relatively fast method of growth (e.g. compared to internally sourced growth) on businesses which are acquired will likely already be established in a particular market, meaning that the organisation initiating the takeover can quickly take advantage of synergies and grow.



(b) A variety of appraisal methods are used by ELE PLC in order to ensure employees remain motivated. Griselle believes that a large part of the car rental division's success can be attributed to their approach to HR, which includes staff appraisals.

⇒ appraisal methods used by ELE allow managers to personalise training for employees, ensuring that employees can be given opportunity for mastery within their job role, which according to Daniel Pink, is very important. This training personalisation which leads to improved motivation, is largely attributed to appraisal interviews, hence ~~most likely to affect one~~ ^{is} likely a result of formative appraisal. ⇒ application?

⇒ appraisal methods also allow managers to continually clarify job roles at ELE. This way, employees are ~~not~~ always sure of their exact purpose within the organisation, which again, is a likely contributor to motivation through Daniel Pink's motivational theory.

⇒ Finally, employees state that they "value the opportunities that self-appraisal provide and formative appraisals provide for ongoing critical evaluation of performance." This way, employees will likely always feel heard and respected by managers, on their performance in



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BM CSP PI HL

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Example
Ejemplo

27

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Example
Ejemplo

3

	3
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3

continually appraised. Such motivation is embraced at ELE through Maslow's theory surrounding esteem needs - ~~giving both for the employees themselves (internal esteem) through self-appraisal, as well as a feeling of respect from managers (external esteem needs) through formative appraisal interviews with managers.~~ (5) → This is just a stab in the dark I think there was enough application!

4

(a) Overheads refer to the daily running costs of the organisation, which is mostly revenue expenditure. Such expenses include those directly attributable to the sale of goods (variable costs) like COGS (variable). Other overheads include semi-variable as well as fixed costs which are still incurred on a recurring basis, such as wages, utilities and rent.

Whoops! Wrong!

1

(b) Long term loans could be used to redevelop the site as a large amount of capital investment is required (expected value of €110 million). Such large amounts can be justified by a long-term loan as ~~the~~ the investment will



provide long term revenue. With the quoted low interest rates in Europe of " $\sim 0.5\%$," the loan could be very cheap. However, this could quickly turn into a failure for ELE as the dramatic ~~the~~ quoted inflation rates in Europe are likely to see an increase in interest rates, which could have negative cash flow impacts over the long term on such a large loan.

not in MS, but correct?

- A sale and leaseback on the gasoline stations would provide ELE with a quick cash injection, allowing them to ~~not~~ redevelop their sites, without needing to relocate. This way, ~~the~~ the operations of the business are not disrupted but their large amount of number of fixed assets (700 stores) can be used to raise at least part of the €130 million required.
4

(c) \Rightarrow Social: a changing attitude towards the use of gasoline-powered vehicles is likely to see customers elect to purchase/purchase electric rental car services in the ~~for~~ future, rather than ELE's current product offering. While the electric car rental market is currently not well developed, the decreasing price of EVs (as per Oliver's report) will likely mean that customers will be more attracted away from ELE due to this social threat.

\Rightarrow Ethical: the aforementioned change in social attitudes is likely to place an ethical imperative



04AXD2

on ELE, which is very far from a "green organisation" to change. It is likely that external stakeholders like customers and advocacy groups will begin demanding change in the car rental division's existing market. The same goes for governments. This way, ELE is facing an ethical threat which is likely to require significant future investment such as with the last brand, which could have negative cash flow impacts.

(4)

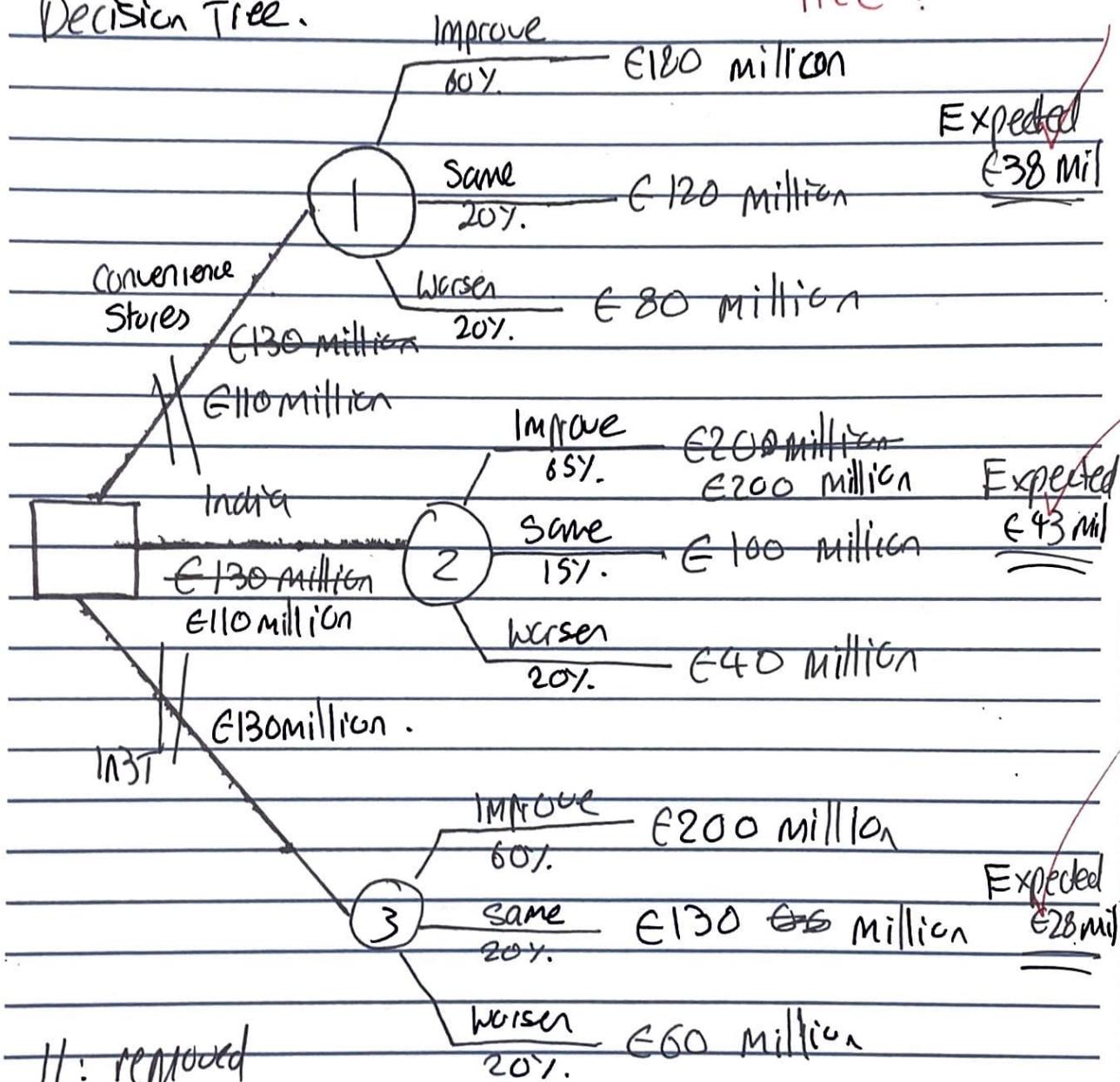
(d) Begins on following page.



(d) Hugo, Giselle and Monica have each proposed a different strategy to help ELE survive a variety of external threats, however only one may be chosen due to the risky economic situation that the covid-19 pandemic has ensued.

⇒ the MS introduced the decision tree?

Decision Tree.



11: removed

□: decision node

○: chance node





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Example
Ejemplo 27 27

Example
Ejemplo 3 3

4 (1) Expected values:

Convenience Stores: $E(X) = 180 \times 0.6 + 120 \times 0.2 + 80 \times 0.2$
 $= €148 \text{ million}$

$- €110 \text{ million} = €38 \text{ million}$

India: $E(X) = 0.65 \times 200 + 0.15 \times 100 + 0.2 \times 40$
 $= €153 \text{ million}$

$- €110 \text{ million} = €43 \text{ million}$

Indonesia: $E(X) = 0.6 \times 200 + 0.2 \times 130 + 0.2 \times 60$
 $= €158 \text{ million}$

$- €130 \text{ million} = €28 \text{ million}$

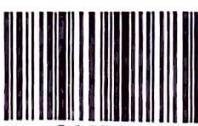
The decision to redevelop the convenience stores will involve major construction investment. The major advantage of this is that the decision, which is likely a form of product extension on the Ansoff matrix as customers will be similar, has a qualitatively & relative low amount of risk. ECE already owns the properties, and has local knowledge of the area. However, while the stores already have prime locations, market research would need to be done to analyse the need for convenience stores, particularly with regards to competition. In the



part, the gas stations would attract customers to the E&A retail stores operated by ELE, however now, customers would need to see enough value to travel to what used to be a prime gas station location (e.g. off a highway), which is not very convenient.

An expansion into India has the greatest expected value on the decision tree, & beating option 1 by € 5 million. Indian economy, despite recent disruption, is growing steadily with a relatively low, yet still high inflation rate of 6.7%. This means that alongside their rapid urbanisation, as outlined in the case study, the demand for domestic tourism, hence also car rentals is likely to boom in the coming years. This is likely the reason why an improvement has a 65% chance on the decision tree. However, India is currently a relatively unknown market. Without performing research before purely the small local businesses, rapid urbanisation and growing tourism, the possible possibility of success of an inter international organisation is likely much lower than what was predicted in the decision tree.

Finally, the INBT branch on the Ansoff Matrix is a type of diversification, as the new product would be sold to new customers, alongside likely existing customers - however, the branch development is likely to prioritise a new set of customers. This is risky and expensive (€130 million vs. €110 for India expansion).



resulting in a very low expected value of €28 million on the decision tree. The redevelopment, however, would give ELE a more diversified portfolio that is better suited to the changing external environment, and is likely to succeed due to this. Monica's quoted first move advantage is likely to emphasise this.

In conclusion, ~~otherwise~~ due to the better economic conditions, as well as the better expected value on the decision tree, an expansion to India is recommended. The two other strategies have been identified as too fit. Option 1 was identified as too risky given the limited market research accompanying the convenience store, and option ~~2~~ 3 is too expensive, despite its better suiting to the changing external environment.

=> I touched on many MS points

=> I was really strapped for time → that decision tree eats ~6 minutes out of the 25 I had left !!!

=> My response was structured like I had used a FAFFA, however the MS was more structuring it around the decision tree ??

=> I will say a mark of ~ (8-9)

