International Baccalaureate
Baccalauréat International
Bachillerato Internacional

Business Management
Practice Paper 1

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Candidate session number

1 hours 15 minutes

Instructions to candidates

- Do not open this examination paper until asked to do so.
- A clean copy of the **business management case study** is required for this examination paper. Read the case study carefully
- A clean copy of the **business management formulae sheet** is required for this examination paper.
- Section A: answer **TWO** questions.
- Section B: answer question **4**.
- A calculator is required for this examination paper
- The maximum mark for this examination paper is **[40 marks]**

Section A

1) Identify
2) Describe
3) Explain application to ELE.

HL students: Answer **TWO** questions from this section.
SL students: Answer **ONE** question from this section

1. (a) Describe **two** features of a private limited company. [4]

(b) Explain **two** STEEPLE factors that currently pose a threat to ELE's operations. [6]

2. (a) Describe **one** *benefit* and **one** *limitation* of stratified sampling (line 40). [4]

(b) Using motivation theory, explain how the appraisal methods used for ELE's car rental division could impact on staff motivation (line 90). [6]

3. (a) Describe **one** advantage and **one** disadvantage of the personalised training being provided to ELE's car rental division employees (line 80). [4]

(b) Explain how **two** stakeholders will be impacted by the 10-year plan being considered by ELE's Board (line 90). [6]

→ Shareholders: lose dividends

Stakeholders (internal and external)

→ specific mention.

Appraisal methods:

RTC

- employees
- board

culture ← Stakeholder conflict

- government
- customers
- suppliers

→ phasing out gas stations

→ MNC impact on host country.

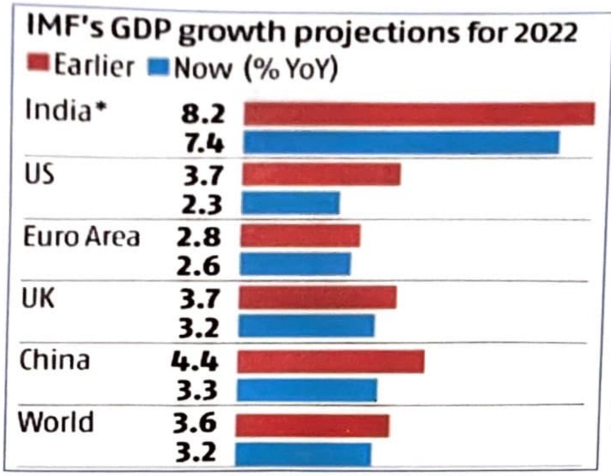
can bring in own knowledge surrounding inflation etc.

Section B

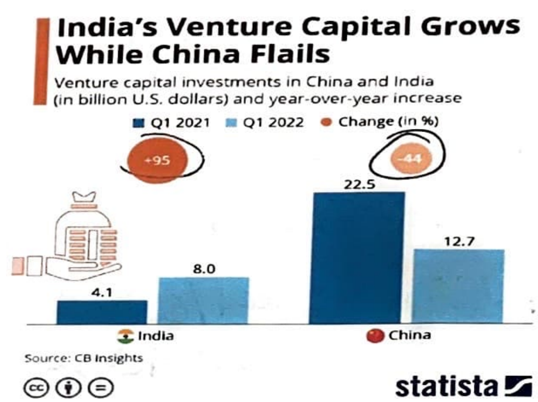
4. The following questions relate to two proposals currently being considered by ELE's Board of Directors.

Proposal 1: Expand the car rental division to India.
Proposal 2: Redevelop the gasoline stations as convenience stores.

The following data sources have been provided to ELE's Board for consideration.



Source A:
The International Monetary Fund (IMF) predict India's economy to grow by 7.4% in 2022, compared with 2.6% in European markets. Earlier forecasts were downsized due to high inflation resulting from the war in Ukraine and Covid related disruptions affecting the global economy.



Source B:

Change in venture capital investment in India and China. Many MNC's are moving away from being solely dependent on China.

	Euro (millions)
Cost of Sales (COGS)	100
Current assets B	110
Current liabilities B	140
Sales revenue	240
Long term liabilities B	300
Share capital B	80
Retained profit	12
Fixed asset B	400

Source C:
Financial data for ELE for year ending September 2022

Answer <u>all</u> of the following question (SL and HL)

(a) Define the term *diversification (line 14).* [2]

(b) As at September 2022, calculate ELE's:

(i) Gearing ratio [1]

(ii) Current ratio [1]

(iii) Accumulated depreciation on fixed assets [2]

(c) Outline two STEEPLE factors that are currently threatening ELE's gasoline stations division. [4]

(d) Using information from the case study, data provided and relevant tools, evaluate whether ELE should proceed with Proposal 1 or Proposal 2 **with consideration of appropriate sources of finance**. [10]

P1

Adv: growing Indian economy

Disadv: limited local/cultural knowledge

↓

~~[illegible]~~ venture capital

local loan.

P2

Adv: own industry: product development!.

Disadv: where already saturated: barriers to entry.

↓

selling of fixed assets

→ already have high debt.

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(1) (a) · limited liability : private limited companies ensure that owners are ~~only~~ ~~li~~ only liable for debts up until the amount of cash they have invested

· privatised selling of shares: private organisations operate on "invite only." External investors may be offered to purchase a percentage of the organisations shares, but they must be offered to do so - the ~~organ~~ private ~~lim~~ limited company is not listed on a public stock exchange, hence are ~~less~~ not vulnerable to hostile takeover, and ~~do~~ there are certain documents they ~~need~~ need not publish publicly.

·

(1)(b) ~~Economic~~ · Legal: many governments ~~are~~ have announced they will ban the sale of gasoline powered vehicles by 2030, according to Oliver's report. This will mean that over time, demand for gasoline will decrease, meaning the available market share for ELF will decline. Alongside the fact that Europe's gasoline market is already likely saturated with many other companies like BP and Shell, this threat will likely push this market into more saturation, as only the fittest companies will survive. For ELE, survival is questionable for arguably one of their largest divisions, their gasoline station division, making this legal threat poses an existential threat to both the division, and the organisation as a whole.

Social: with the ~~soc~~ rising consciousness of society surrounding the use of fossil fuels in the modern world, brand perception and value will become more dependent on the CSR actions businesses take with regard to the environment. Already, the impairing economic climate surrounding electric vehicles only amplifies the imperative that society will place on companies like ELE to ensure they are not harming the environment as much as they currently are. These external stakeholders, comprised of advocacy groups, customers, governments and more, will be calling on ELE to change, which is a major threat due to their need to balance these requirements with those of internal stakeholders. The large capital investment costs for projects like IAST into the future are an example of this, and will negatively harm ELE's short term liquidity position. Whether they can cope with rising social pressures remains to be seen, but this is certainly a major external threat.

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(2)

(2)(a) Benefit: stratified sampling gives a more realistic overview of the market, as the method involves ~~sampling~~ dividing the market into strata, and then sampling a number of people proportional to the relative size of each strata in the overall population. This way, an element of bias is removed, and it is likely that more of the overall market is understood, whereby other sampling methods would negatively prevent ~~to~~ certain groups from being heard.

Limitation: stratified sampling requires a significant understanding of the market already. Particularly if certain strata are minorities, it is often difficult to get adequate secondary data from, for example, a government census, to appropriately support the sampling method. The data may be inaccurate, out of date or non-existent. Hence, significant ~~costs~~ costs, in both time and money may be incurred by using this sampling method. If certain data are not found or ~~adequate~~ sufficient, the sampled population may be incorrect, ~~thus~~ introducing bias into the research, hindering its usefulness.

(2)(b) ELEs car rental division places great emphasis on employee motivation, in a large part through extensive application of appraisal.

Formative appraisal: this appraisal method involves a continual dialogue between the employees and line managers. Often, it will allow employees to communicate upwards in the organisation, giving feedback to their line managers. Further, formative appraisal provides ongoing clarification of job roles within the organisation, as mentioned in the case study. This is likely to achieve to Daniel Pink's sense of purpose within the organisation, letting employees have a clear, defined intrinsic purpose motivator. Furthermore, the notion of purpose clarification is an indicator of external ~~esteem~~ esteem needs being met on Maslow's heirarchy of needs, improving their motivation.

Self appraisal: this method involves letting employees guage their own performance within the organisation, helping them fulfil their internal esteem needs, according to Maslow, improving their motivation. Furthermore, being given autonomy to complete self-appraisal is another indicator of an application of Pink's theory, further enhancing motivation.

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3

1

(4)(a) Diversification, ~~involves~~ in the context of product offering and revenue streams, involves ensuring there are multiple channels through which an organization may gain revenues. This helps them reduce their exposure to risk of overdependence, and is a key growth strategy on the Ansoff matrix.

(4)(b)(i)

$$\text{gearing} = \frac{\text{loan capital}}{\text{capital employed}} \times 100$$

$$= \frac{300}{300+80+0} \cancel{\times 100}$$

$$= \cancel{0.78945 \times 100}$$

~~= 78.9%~~

$$= 78.95\%$$

(4)(b)(ii) $\text{current} = \frac{CA}{CL}$

$$= 110/140$$

$$= 0.7857$$

$$= 0.79$$

(4)(b)(iii) ~~FA~~ A = L + E

~~∴ 400 + 110 + d = 140 + 300 + 80~~

~~∴ d = 10~~

~~∴ depreciation = $10 M €10 million.~~

A − L = E

~~∴ 400 − d + 110 =~~

(400 + d) + 110 − 140 − 300 = 80

∴ d = 10

∴ d = €10 million {depreciation}

(c) Economic: demand for gasoline will decrease alongside decreasing costs of electric vehicles (EVs) around Europe, as well as the uptake of government subsidy programs for the purchase and manufacturing of electric vehicles in response to climate change. The decrease in demand as a result of this poses a threat to ELEs ability to continue ~~selling~~ finding a large enough market for its gasoline product. Oliver emphasises this threat in his report, mentioning the economic sense of EVs from 2025 and the tightening of European government policies by 2030.

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(4)(c) continued.

Ethical: ELE as a whole will need to respond to changing social views regarding ~~electric the~~ the sale of fossil fuel; supporting an industry that harms the environment. While they can change their ~~core~~ car rental division through rebranding like INT, their gasoline division is ~~the~~ less flexible, and not highly diversified, other than the accompanying retail outlets. Unless ELE engages in radical change of the gasoline station division, it is likely that this ethical threat will pose an existential threat on the gas stations is ELE is to uphold its brand image in their other divisions.

(4)(a) In response to an influx of threats to ELEs current product line, they the board is considering one of two proposals:

Proposal 1: India.

Driving			Restraining
(6) improving economy/opportunity. -	India		- limited cultural knowledge (2)
	5	2.	

The expansion to India would see great opportunity for ELE because of the rising economy in the country. Gisella's proposal, which indicates rapid urbanisation and rising tourism is supported by the IMFs relatively high GDP growth predictions of 7.4% for India, as opposed to ~3% for the rest of the ~~we~~ ~~Western~~ world. This abnormally high influx of new wealth in the country means that more domestic tourists will be needing rental cars, and more financiers like ~~the~~ venture capitalists and loan providers will be willing to invest. Despite ELEs high amount of long term liabilities currently, it is likely that the multinational organisation will be able to access relatively cheap debt or equity when they enter the booming market, making this a

(4)(d) continued... ⑤ Jamie.

major driving force.

However, the relatively limited cultural knowledge of India could prohibit ELE from making a successful entry into the market. While the government is removing a variety of protectionist policies from the country, little market research has been completed on to how receptive the Indian population will be of MNC car rental companies like ELE → cultures vary greatly with Europe. The access to cheap public transport and the limited 4% of rental cars on the road as of the moment might spell failure for ELE.

The second proposal:

Driving		Convenience Stores	Restraining
(3) less risky on the Ansoff.	-		- ~~Barriers to entry~~ ~~(2)~~ - European economic climate (4)
		3 | ~~2~~4	

Investing into the redevelopment of convenience stores would likely be considered as product development on the Ansoff matrix. This is much less risky than the diversification of the expansion to India. ELE already owns the land, which is evidenced by their €400 million of fixed assets. The redevelopment would be a significant cost, for which appropriate sources of finance would need to be reached. However, their past experience in retail, as well as their already ~~es~~ established market would give them a less risky option.

However, with ~~the~~ the ~~effect~~ significantly reduced rates of growth in Europe (~2.6% GDP), it is unlikely that organisations like banks would be willing to offer cheap finance to highly geared organisations like ELE. This could be as a result of the mentioned war in Ukraine ~~&~~ and the devastating impacts of Covid, likely making banks more conservative, increasing the barriers of entry into the convenience store market for ~~EP~~ ELE as they would not be able to access the same cheap finance as their India expansion. With the current economic climate, therefore, this is a major restraining force.

To conclude, the major economic opportunity as ~~EP~~ was identified for ELE in the Indian market offers an unparalleled ~~a~~ driving force of "5" when compared to the worse economic climate in Europe, constituting a significant restraining force, "4" ~~a~~, on the second proposal. This imbalance is the reason why it is recommended that ELE undertake the expansion to India. ~~An~~