ANSWER BOOKLET ①
LIVRET DE RÉPONSES
CUADERNILLO DE RESPUESTAS

International Baccalaureate
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4 PAGES / PÁGINAS

Candidate session number: / Numéro de session du candidat: / Número de convocatoria del alumno: 22TRLP2-BMML

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Example Ejemplo 27 | 27 Example Ejemplo 3 | 3

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(a) · rapid growth in recent years
· much cheaper than regular commerce (in most cases)

(b) · a key diseconomy of scale ~~rece~~ received through rapid sales growth is reaching capacity utilisation and the additional costs that could be experienced. AEC will "reach capacity within several years," meaning they will likely need to either dissatisfy "loyal customers" with poorer service, or invest heavily in increasing capacity.

· another disadvantage is the overworking of employees, which could cause demotivation. Many of AECs employees are older, and have specialised skills. If operating at capacity overworks them, they will both become demotivated and unable to provide those valuable skills to the organisation.



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(c) ~~Pricing: moving to another location will likely help AA AEC operate with better net profit margins due to reduced~~

- Pricing: moving to another location will most likely increase transport costs for AECs products. This is because most of their customers live in the city centre with only 5% ecommerce, meaning that AEC will need to add transport costs to the price of their products. This would decrease competitiveness in the marketing mix.
- Place: Operating far from the city will worsen proximity to market. As was mentioned, most of AECs customers operate within the city, meaning they would perhaps find AECs "place" marketing mix less attractive once they move out.

(d) To resolve a liquidity problem, AEC is considering an option that involves the following three aspects:

- sale-and-leaseback
- change to JIT
- decrease ~~creditor days~~. debtor days.

There exists a driving and restraining force for each component below:

| Driving forces | | Restraining forces |
|---|---|---|
| (2) cash injection → | Option 2 | ← lose valuable asset (4) |
| (3) decrease stock turnover → | | ← JIT difficult to manage (1) |
| (3) free up cash → | | ← lose loyal customers (4) |
| Total: 8 | | Total: 9. |

Ratios: debtor days $= \frac{2176000}{24000000} \times 365$

$= 33.09$ days
↳ industry standard ~35 days.

Stock turnover = 35 days
Creditor days = 30 days

The sale and leaseback is a valuable ~~tool~~ source that can be used to resolve a liquidity crisis, as valuable assets can be sold for large sums of cash, then leased back at comparatively low prices. For AEC, this would provide a much needed cash injection, helping them survive the short term liquidity crisis as their property is going to be a very valuable asset on their balance sheet (property prices have risen since the original construction). However in this exists a significant restraining force, as the sale of the fixed asset will prevent AEC from benefitting from future increase in land value. Relying on this to solve short term crises would ~~stop~~ reduce future liquidity (due to leasing) and, due to the "forecasted to increase further" land costs, would ~~make a~~ significantly harm AECs future balance sheet. This major restraining force ("4") is a likely indicator that this component of option 2 should be ignored.

A change to JIT manufacturing would offer a significant driving force to AEC, as they will be able to reduce stock turnover due to the increased efficiency that JIT provides. Their current 35 day stock turnover, despite their ~~ca~~ proximity to market, is indicative of AECs limited ability to handle their JIC stock control system, which was identified in the stimulus as a leading issue with respect to liquidity. Stock is expensive and wasteful to hold, hereby constituting a driving force of "3" for the option. However JIT requires ~~many~~ highly skilled workers and managers. AECs current "poor management of sales growth" hints that they do not have the skills to adopt JIT. However, ~~highly skilled work~~ workers

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Example / Ejemplo 27 [2|7]   Example / Ejemplo 3 [ |3]

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with "specialized skills" will be invaluable in adopting this strategy. AEC must look at bringing on additional skills to adopt JIT to ensure they can still meet their loyal B2B, local customer's requirements, but this ~~driving force~~ restraining force is not a very large one for AEC.

Finally, decreasing ~~credit~~ debtor days from the ~~calculated value of 33 to~~ approximately 30 (see calculation of 33) to 15 would place AEC at a competitive disadvantages. Business customers will be highly reliant on an industry standard, or better, number of days to pay their suppliers (in this case, AEC) and decreasing to half ~~their~~ the ~~ct~~ current industry standard of "30 to 35 days" could be disasterous in meeting the expectations of their local, loyal customers. ~~The~~ However, the driving force for this option shows that decreasing debtor days by half would improve liquidity, as AEC would be able to access their customer's funds. This, however,

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is outweighed by AECs reliance on local, loyal customers for 95% of their revenue.

In conclusion, it was identified that AEC should not participate in a sale and leaseback as that would see a loss in a valuable asset. Also, the decreasing of debtor days would place AEC behind the industry average. Provided they have ~~ex~~ adequate skills to do so, AEC should adopt JIT, as it was identified that this would provide them with decreased stock turnover. Overall, however, option 2 is seen as unfavourable, which can be seen in the prior reasoning and the FFA, "8" vs "9", restraining.