Jamie

ST ANDREW'S
CATHEDRAL
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FOUNDED 1885

International Baccalaureate
Baccalauréat International
Bachillerato Internacional

Business Management
Trial Examination Higher Level
Paper 1

Monday 22nd August 2022 (afternoon session)

Candidate session number

0	0	3	3	7	6	0	0	4	1

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]**

A = 9 + 7 = 16

B = 1 + 4 + 3 + 8 = 16

32/40

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ANSWER BOOKLET (1)

4 PAGES

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VIA CRUCIS VIA LUCIS

Candidate session number: 003376-0041

Candidate Name: JAMES SULLIVAN

At the start of each answer to a question, write the question number in the box using your normal handwriting

Example 27 [2][7] Example 3 [ ][3]

[ ][1]

a) advantage: multinationals often provide new, innovative technology to host countries. In the case of ELEs proposal to expand to India, it is clear that India does not have a well established car rental industry (only 4% of all cars on the road). The introduction of a MNC like ELE would perhaps ~~bos~~ boost the industry, potentially providing opportunity for even more rapid urbanisation.

disadvantage: while an industry in Europe might be saturated, the infiltration of a MNC into India, with not much existing competition, would mean that ELE would nearly immediately recieve a monopoly. The limited number of companies operating locally (one or two cities) would likely fail as ELE has the resources and economies of scale to expand nationally.

Good response (4)

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b) ~~Car Rental Division:~~

Zeat Division of ~~B2B~~ B2B: Cash cow (75% market share, saturated). This means that the Zeat division provides ELE with a consistent and steady income. This way, ELE can rely on it as a ~~div~~ good revenue stream if any of the other divisions fail, or stop doing as well into the future. The maintenance costs of cash cows is also relatively low, as not much investment needs to be made. Zeat has already innovated their MiniC product and expanded their market (B2C), meaning that at the moment, not ~~mean~~ much investment needs to be injected into it: rather, it has stable cash flow, allowing for innovation in other product-oriented divisions.

Still indicates it is growing, but forecast to slow down. Would call it a

Car rental division: Dog (saturated with growth slowing down). A dog product presents a significant problem for ELEs car rental division, as it indicates that they have a product with little-to-no opportunity for expansion, and already with a low market share (note: this is assumed due to market saturation). It is likely that due to fierce competition, ELE is needing to continually inject cash into the business in order to keep their ~~exter~~ market share, likely through continually ~~inve~~ investing in marketing, or considering large investments into new

brand redevelopments like In3T.

5

BCG: ~~Do~~ Car rental division is not a dog (yet)

a) advantage: Internal recruiting will encourage more motivation within the car rental division, as it shows how management is committed to providing ~~to~~ opportunities for career progression, a key factor of many motivational theories including that of Daniel Pink. In the case of the car rental division, employees are clearly motivated by the opportunities provided by this, and are more likely to be loyal to ELE, reducing labour turnover and hence, also, overheads. Giselle believes that this is one of the key reasons the car rental division has been successful.

Refer to the type of people Giselle has attracted – likely to be motivated by promotional opportunities

- disadvantage: as internal recruitment involves selecting ~~existor~~ existing employees when new management positions arise, it is likely that a lack of new ideas and innovation will be present. Ironically, this goes against Giselle's aim of encouraging innovation and change in the business, and could be a lead contributor to the fact that ELEs car rental division has not participated in any recent innovation. Good point!

3

b) - The expansion to India can be regarded as market development on the Ansoff matrix, as it involves bringing the existing product which is facing ~~decline in~~ market saturation in Europe, the car division, to India, where an entirely new and growing market can be reached. This is evidenced by the rapid urbanisation and tourism growth, which would certainly provide ELE with a variety of opportunities regarding the new market. It should, however, be noted that expanding to India without changing the product would be a very risky strategy, so perhaps there would need to be an element of product innovation required, making it a diversification strategy, however not enough information is provided on the case study.

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ANSWER BOOKLET ②

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Example 27 | 2 | 7 | Example 3 | | 3 |

The question is referring to growth strategies adopted

- The decision to expand In3T could be seen as a diversification on the Ansoff, as it involves reaching new customers (through memberships), as well as ~~$~~ completing product, and potentially paradigm innovation with the introduction of a mobile app and electric vehicles (hence the "first mover advantage" which Monica mentioned). On the Ansoff, this would be a very risky strategy, as diversification involves both product and market unknowns, as ELE would need to undergo significant change to adapt to this radically new business plan. Diversification, however, would provide a range of opportunities for internal growth, and if done correctly, can reduce risk through ~~diversifying~~ diversifying revenue streams.

- new promotion but is it a new market?

4

heart mind life

4

a) First mover advantage is when a business attempts to take advantage of a new market, unexplored by innovating and developing a ~~market~~ marketing mix for it before competition. This way, they can establish a star product with a loyal customer base, while increasing barriers to entry for slower competition.

1

bi) Number of years = $\frac{€2\,600\,000}{€780\,000}$
= 3.33 years
= 3 years, 4 months
(note: $0.33 \times 12 = 3.96$ months)

2

bii) $ARR = \frac{(\text{total returns} - \text{capital}) \div \text{years}}{\text{capital}} \times 100$

$= \frac{(780000 \times 5 - 2600000) \div 5}{2600000} \times 100$

$= 0.1 \times 100$

$= 10\%$

2

c) Internal source of finance: a common source of finance for growth is that of retained profits. The €49 million raised in 2000, for example, would have likely been raised from pre-existing profits. The key advantage for this, over other internal and external methods is that ELE retains full financial and operational control over their business. This way, they need

not take on debt obligation (committed to paying long term interest with debentures, for example), and they need not dilute control over the 52% remaining shares in the company. Any more shares sold would result in significant loss of control.

Good theory + application

- external source of finance: loan capital through debentures. ELEs expansion is long term, and requires large amounts of investment, making debentures one of the only viable ~~sources~~ external sources. The key benefit of this is that, especially with ELEs size and historical level of risk, they could likely access ~~less~~ relatively low risk debt, which means they would not need to pay very high levels of interest. This would allow them to participate in rapid expansion (e.g. takeovers and acquisitions), without taking ~~on too much many interest obligations.~~ on very expensive interest obligations.

Can you refer to a specific growth in the past that may have been financed by debentures eg. growth/expansion of gasoline stations

3

d) ELE is currently experiencing ~~market~~ market saturation in their car rental division. While specific information has not been provided, it is likely that their product is ~~either~~ a ~~a~~ bordering on a Dog on the BCG matrix. For this reason, Giselle and Monica have each proposed ~~two~~ ~~differ~~ an ~~$~~ idea to expand the car rental division into the future:

Forcefield analysis:

Driving Forces	Giselle: expand to India	Restraining Forces
(3) rapidly growing market ~~with~~		risky market to enter (4)
(1) low barriers to entry		~~high~~ ~~budget~~ bad ARR and PBP (2)
4		6

Driving forces	Monica: re-brand to InBT	Restraining Forces
(4) good ARR and PBP		high capital expenditure (2)
4		2

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Giselle's decision to expand operations to India ~~has~~ would give ELE access to a rapidly growing market. This is because India is experiencing both rapid urbanisation and subsequently increasing tourism. A market which is growing gives opportunities for large multinational companies to quickly acquire a large market share of loyal customers. As ELE would set-up in 12 ~~majour~~ major cities to begin with, they would have high exposure to a very large ~~population~~ market, mainly domestic tourists. Further, operating on a national scale enhances this opportunity, as ELE would quickly become prevelent all over India's main population centres. Hence domestic tourists would be able to maintain there loyalty to ELE while travelling.

However, ~~being~~ having an element of market development and diversification on the Ansoff matrix, this growth strategy would ~~pose~~ be high risk. It is clear that ELE has not properly conducted primary market research into

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whether there would actually be demand for the product in India. Foreign tourists are likely to use alternative means of transport, while day-to-day workers do not have a large need for rental cars, leaving only domestic tourists. Identifying a growing market like Giselle has done is good, however she must also identify how much of it ~~it~~ ~~it~~ can be targeted well by ELEs marketing mix. Could refer to the financials → PBP & ARR

The financial data that Monica proposed to re-brand as In3T shows ~~a~~ numerous financial benefits, including a low PBP of 3 years, 4 months, and an impressively high ARR of 10% over 5 years. Evidently, provided the figures are accurate forecasts, this product innovation makes the ~~mo~~ most financial sense when compared with Giselle's financial data. It is also important that ~~EF~~ ELE diversifies quickly so that they can begin to cover for any losses in the gasoline division, predicted to start within the next decade. Hence, this was identified as a major force on the FFA First mover advantage and some theory on benefits of innovation would be appropriate

The ~~expe~~ rebranding does, however, require a much larger injection of cash into the business (€2600000), as it is a very innovative, yet costly idea. This means that ~~ele~~ ELE will either need to

dilute control beyond 52% or take on a significant amount of financial leverage through debt. It is also likely that banks are currently ~~see~~ seeing gasoline companies like ELE as much riskier, hence are likely to charge higher interest. Unless ELE can find a way to finance this large investment with retained profits, it is likely that the act of acquiring the finance cash is costly. → relate to impact on liquidity / working capital However compared with the current scale of ELE, €2.6 million is not too ~~sig~~ large to not make it worthwhile.

Hence, the FFA shows a clear advantage of the rebranding over the India expansion (4 vs 2). Furthermore, the good financial returns of the investment far outweigh the prospects of the high capital costs. Furthermore, it was identified that the India expansion is too risky, and Giselle has not completed enough research into viability. For these reasons, it is recommended that ELE participate in the In3T re-branding.

Well justified

8

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