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

For November 2022 examinations

TEACHERS' NOTES

- These are suggested answers only.
- Teachers should use their professional judgement in awarding answers that may not be included in this mark scheme.
- The data included in Section B are provided for illustrative purposes only, in order to give students further practise for the final examination in November 2022.

SECTION A

1. (a) Distinguish between internal recruitment and internal promotion (lines 69 and 72) at ELE PLC. ***[4 marks]***

Internal recruitment occurs when employees at ELE PLC are selected for vacant positions from within a business, i.e., existing employees are given new career opportunities within the organization (lines 69 – 72). This does necessarily have to be for internal promotion opportunities as internal recruitment is the process of filling employment vacancies within ELE PLC from its existing workforce. For example, this could be due to transfers of workers between the different car rental offices in Europe, reorganization as the company grows, and/or role changes without necessarily being promoted.

By contrast, internal promotion occurs when employees are selected and appointed for vacant job positions from within the organization that hold a higher rank in the organizational hierarchy. In the case of ELE PLC, Giselle advocates internal promotion of employees for managerial-level positions that become vacant. It is more effective when employees show ability and willingness (interest) in the managerial-level vacancy.

Accept any other relevant distinguishing feature between internal recruitment and internal promotion, written in the context of the case study.

Award up to [2 marks] for an answer that shows some understanding of the demands of the question, although the answer may lack a clear distinction between the two terms and there is limited, if any, application.

Award up to [4 marks] for an answer that shows good understanding of the demands of the question, with a clear distinction made between internal recruitment and internal promotion. There is effective use of appropriate terminology and application throughout the answer.

(b) Explain <u>two</u> benefits and <u>one</u> drawback of ELE PLC creating a 10-year business plan (line 91). ***[6 marks]***

A business plan is a written document detailing how an organization sets out to achieve its objectives and the strategies to achieve these goals.

Possible benefits of creating such a business plan include the following:

- To make better informed decision, such as the future strategic direction of ELE PLC (line 95, Oliver's report).
- To reduce or minimize financial risks, such as consideration of the threats to the company's gasoline station division (line 95, Oliver's report).
- Similarly, forward planning also helps ELE PLC to avoid possible mistakes and cope with potential crises. For example, without a business plan, expanding into India without knowing much about the domestic car rentals market could be disastrous for the company.

- To support the viability of a business proposal – Monica saw the points in Oliver's report as opportunities, whereas both Hugo and Giselle saw these as challenges. Hence, the business plan helps the directors to make fairer and objective decisions based on facts and figures, rather than personal preferences.

- Given the uncertainties facing ELE PLC, producing a business plan helps the owners to gain a better understanding of changing market conditions and trends. The business plan also helps the owners to better understand the external environment affecting the company, such the impact of government bans on gasoline and diesel fuel from 2030 (line 95, Oliver's report).

- *Accept any other suitable purpose of creating business plans, explained in the context of the case study.*

- *Accept any other appropriate benefit of creating business plans, written in the context of the case study.*

Possible limitations of creating such business plans include the following:

- The main drawback is the timeframe. Most businesses create yearly or up to 5-year plans. A ten-year plan is sceptical due to the changes (and therefore inaccuracies) in the external environment. Whilst is might be relatively easy to predict things within the next year, it is far more challenging to do so for a 10-year period, even if the plans are reviewed periodically.

- There may be a failure to anticipate a future problem. For example, no business was able to predict the widespread damage caused by COVID-19, which continues to affect many industries in every part of the world. Contingency plans might be part of ELE PLC's business plan, but it is not possible to predict and cater for every "what if" scenario, especially over a 10-year period.

- Business planning is time consuming, especially if the directors are planning for the next ten years. It requires market research, market analysis, discussions (meetings), and interpretations. Therefore, it can be highly expensive, taking away financial and human resources away from other priorities.

- It is a static document, so the findings and recommendations (line 95, Oliver's report) are only valid at one point in the time, i.e., the time of writing. Changes in the internal and external environments can easily void the contents of the business plan. Although business plans can (should) be updated, this can be time consuming for the directors of ELE PLC.

- *Accept any other relevant potential drawback or limitation, written in the context of the case study.*

Award [1 mark] for each valid advantage (up to two advantages) and [1 mark] for a suitable disadvantage. For each point, award up to a further [1 mark] for a valid explanation using appropriate terminology.

2. (a) Outline <u>one</u> opportunity and <u>one</u> threat that ELE PLC could face if the Board of Directors decides to enter the Indian market (line 102). ***[4 marks]***

Examples of opportunities include:

- There are commercial prospects for expansion of ELE PLC's car rental division into the Indian market (102 - 111), especially as foreign and domestic tourism is growing (109) and there are no plans by the Indian government to ban the sale of petrol (gasoline) and diesel fuelled cars.
- As foreign and domestic tourism is growing in India (line 109), this should increase the demand for private car rentals in the country. Being the second most populous country in the world, this creates further potential for India is a market with growth potential.
- The number of people living in cities in India is continuing to rapidly increase due to the urbanization process (line 110). This will create commercial opportunities for ELE PLC should the company extend its operations of car rental services in major cities and airports in India.

Examples of threats include:

- The Indian market might not respond positively to ELE PLC's expansion into the country; what works well for ELE PLC in Europe might not do so in India, especially as public transportation is cheap (line 111).
- There may not be a large enough market for car rentals. This might be a key reason why most car rental businesses in India are small and local (lines 103 - 104). Hence, the limited market size could mean it will be challenging to sustain the profits of ELE PLC's car rentals division.
- There are likely to be existing competitors, some of which will be large multinational car rental companies such as Avis as well as domestic providers. If these firms have brand loyalty, it will be difficult for ELE PLC to establish itself. The directors will need to do further research in this area to determine the scale of this potential threat.
- *Accept any other relevant opportunity or threat, outlined in the context of the case study.*

Mark as 2 + 2.

Award *[1 mark]* for an appropriate opportunity and *[1 mark]* for an appropriate threat identified, plus a further *[1 mark]* for application to each of the points identified, outlined in the context of the case study.

(b) Explain the potential impacts of the increasing popularity of electric cars on ELE PLC's costs and revenues (see Oliver's report, line 95). ***[6 marks]***

The stimulus material states that worldwide sales of electric cars rose by 43% in 2020 (line 95, Oliver's report). This trend is expected to continue given that battery prices will fall as the electric vehicles industry grows. This can have negative impacts on ELE PLC as well as impact a change in its corporate strategy.

Explanations of the impacts could include the following points:

- With many governments announcing that sales of new gasoline and diesel cars will be banned from 2030 (line 95, Oliver's report), the sales of electric cars are set to rise at an increasing pace. This will harm ELE PLC's gasoline stations division if the company does not adapt and evolve, as suggested by Monica.
- As gasoline sales are expected to gradually decline over the next decade (mainly due to the switch to electric cars), this has huge negative impacts on ELE PLC's gasoline station division, with its 700 (lines 8 and 14). Even redeveloping these outlets as convenience stores (line 98) would not necessarily generate the same value of sales from selling gasoline and diesel.
- However, as electric cars are predicted to be cheaper to purchase than petrol- and diesel-powered models by 2025 (line 95, Oliver's report), this creates opportunities for ELE PLC to embrace this fundamental change, especially if it can launch the In3T brand with its advance technology. This could help ELC PLC to gain competitive advantages in the car rentals market.

Award a maximum of [2 marks] if the response is imprecise or lacks clarity. The answer lacks effective application.

Award a maximum of [4 marks] if the answer shows partial understanding of the demands of the question, although the explanation lacks detail in certain areas. There is some evidence of suitable application.

Award up to [6 marks] for an answer that shows a clear understanding of the demands of the question, with appropriate use of terminology and clear application throughout the answer. Given the command term, there is no requirement or expectation to provide a balanced, two-sided argument. Therefore, accept arguments that present only negative impacts, for example.

3. (a) Describe <u>two</u> features of a takeover (line 19). ***[4 marks]***

Possible responses could include descriptions based on the following features:

- A takeover is a method of external growth that occurs when one company buys a controlling interest (majority stake) in another business, thereby taking overall control and ownership of the target business.

- The takeover can result in the acquired company being rebranded as part of the purchasing company (ELE PLC) or can have its brand name retained (as in the case of Zeat PLC). In the latter case, the acquired company operates as a separate business division of the parent company.

- The takeover can be friendly (in which case the two companies agree to the acquisition), thereby creating synergies for both companies. However, the takeover can also be hostile (in which case the target company is bought out against the wishes of its directors and/or shareholders.

- *Accept any other feature described in the context of the case study.*

Mark as a 2 + 2

Award [1 mark] for identifying an appropriate feature and a further [1 mark] for the description, written in the context of the case study, up to the maximum of [4 marks].

(b) Explain how the appraisal methods used by ELE PLC's car rentals division could impact the level of employee motivation (lines 73 – 80). ***[6 marks]***

An appraisal is a formal system of judging a person's performance at work. The process usually consists of collecting data about an employee's performance and contribution to the workplace through interviews with the employee being appraised. Motivation is about the desire, effort, and willingness to fulfil a job role or to achieve something.

Explanations of how appraisals used at ELE PLC can impact the level of motivation at the company include the interrelated points below:

- Self-appraisal refers to employees reflecting on their own performance at work by rating or ranking themselves against performance targets agreed with their direct line manager. They are often used to identify personal training and development needs of the employee. This can help to improve motivation if employees feel valued and supported, rather than being sanctioned.

- Formative appraisal takes place at regular and predetermined intervals during the year, namely the monthly scheduled meetings with ELE PLC's managers in the car rentals division (lines 74 - 75). The purpose is to inform employees about their performance, including where they have done well and where improvements may be needed, as well as training and development needs. Again, supporting workers to improve and make progress can help to improve the level of staff motivation.

- Summative appraisal refers to the method of appraisal that is conducted at the end of the year, with the appraiser summarizing the employee's performance against pre-agreed performance targets and other goals. It is often used to determine renewal of contracts, bonus payments, and/or internal promotion of employees. Hence, it can help workers to be more motivated as their employment, remunerations and career prospects all depend on their appraisal.

- The appraisal methods give ELE PLC's employees a voice – Appraisals enable two-way communications between the employer and employees. They provide employees with the opportunity to ask questions, express their concerns, make recommendations, and to share their views or opinions. Hence, giving employees a voice helps to improve staff morale especially if their feedback is valued and appreciated.

- *Accept any other relevant explanation of how ELE PLC's appraisal methods impact the level of employee motivation, written in the context of the case study.*

Award a maximum of [2 marks] if there is a limited understanding of the demands of the question, or if the answer is simply descriptive or theoretical.

Award a maximum of [4 marks] if there is some understanding of the demands of the question, but the explanation lacks depth in some areas. There is some evidence of attempts to apply the appraisal methods mentioned in the case study.

Award [6 marks] if there is good understanding of the demands of the question, with clear explanations of the appraisal methods used at ELE PLC and how these impact the level of motivation. There is appropriate use of terminology throughout the answer, with suitable application of the case study.

SECTION B

4. (a) Define the term *overheads* (line 128). ***[2 marks]***

Overheads are the ongoing expenses of running a business. They are not directly linked to the level of production, or the service being provided, but are still vital to the firm's operations. Examples include the cost of factory rents, salaries of managers, office equipment and supplies, legal fees, accounting fees, advertising, and utility bills.

*Students are **not** expected to word their definition **exactly** as above. Application to the ELE PLC case study is not required nor expected for full marks.*

Award [1 mark] for a definition that shows some understanding of the term overheads.

Award [2 marks] for a definition that shows a clear understanding of the term overheads, similar to the example above.

(b) Explain <u>two</u> appropriate external sources of finance that ELE PLC could use to redevelop its gasoline station sites as convenience stores (lines 98 - 99). ***[4 marks]***

Appropriate external sources of finance could include an explanation of any two of the following:

- *Share issue* (share capital) **–** The subsequent sale of shares in the company to raise additional external sources of finance, although this may dilute ownership and control of existing the shareholders.
- *Commercial bank loans* (loan capital) **–** The amount of loan capital can be significant given the large scale of ELE PLC, i.e., it should be able to exploit some financial economies of scale to finance the redevelopment of its gasoline station sites as convenience stores.
- *Mortgages* (loan capital) – Given the hundreds of gasoline stations that the company operates (line 14), using mortgages as a form of long-term loan capital helps to reduce risks and allows ELE PLC to pay relatively low interest as the loans are secured (as collateral) on the gas station sites and buildings.
- *Debentures* (loan capital) **–** This is a formal loan agreement between a borrower (ELE PLC) and the lender (debenture holders) that gives the lender security over the borrower's assets (its gas stations). The lender receives interest payments from ELE PLC that issues the dentures, but it helps the company to raise finance without having to dilute ownership and control.

Do not award inappropriate sources (to redevelop ELE PLC's gasoline station division) such as:

- Retained profit (or any other form of internal finance)
- Overdrafts
- Trade credit
- Grants
- Subsidies
- Debt factoring.

Mark as a 2 + 2

For each source, award [1 mark] for an appropriate source of finance, and a further [1 mark] for the explanation, up to the overall maximum of [4 marks].

(c) Explain how changes in any <u>two</u> STEEPLE factors in the external environment might pose a threat to ELE PLC's car rentals division in its existing markets (see Oliver's report). ***[4 marks]***

Possible responses could include an explanation of the following points:

- *Social factors* – Social trends have led to a continual rise in the sales of electric cars (line 95, Oliver's report). This will continue to reduce the appeal of ELC PLC's petrol and diesel fuelled cars, thereby reducing revenues in the future. Furthermore, the report showed sales revenue growth for ELE PLC's car rental division is predicted to slow down significantly from 2022 onwards, further threatening its profits.

- *Technological factors* – Unlike more established or advanced competitors in the market (like Uber), ELE PLC's car rentals division has yet to launch a smartphone booking app (lines 63 - 66). This can be potentially damaging to the company's competitiveness and profitability if ELE PLC fails to be highly innovative.

- *Economics factors* – There is fierce competition in the car rentals industry (line 95, Oliver's report). This could limit ELE PLC's options to expand this division, further threatening the company's financial position.

- *Legal factors* – Government bans on the sale of new sales of new gasoline and diesel cars from 2030 (line 95, Oliver's report) will seriously affect ELE PLC's liquidity and financial position as it will need to replace its fleet of hire cars.

- *Environmental factors* – The global transition to more sustainable, electric vehicles means the need for ELE PLC to change its business model. This includes replacing its cars in the rentals division to all electric-powered vehicles, which are more environmentally friendly, as opposed to continuing to use more petrol/diesel-powered vehicles. However, this will be a highly expensive move for the company, despite the prices of batteries expected to decline.

- *Accept any other relevant STEEPLE factor, written in the context of the ELE PLC case study.*

Note: This question requires candidates to explain any **two** of the (seven) STEEPLE factors. Each of the two STEEPLE factors must be explicitly stated (Social, Technological, Economic, Ethical, Political, Legal, Ecological, or Environmental). It must be clear from the response what factor is being referred to.

Award up to [2 marks] if the answer shows limited understanding of the demands of the question. The answer lacks detail and/or application.

Award up to [4 marks] if the answer demonstrates some understanding of the demands of the question. The response may be overly theoretical and/or lacks effective application of the case study.

Award up to [6 marks] if the answer demonstrates good understanding of the demands of the question. The response shows detailed explanations of any two different STEEPLE factors. There is appropriate use of terminology throughout the answer, with effective application of the stimulus material in the case study.

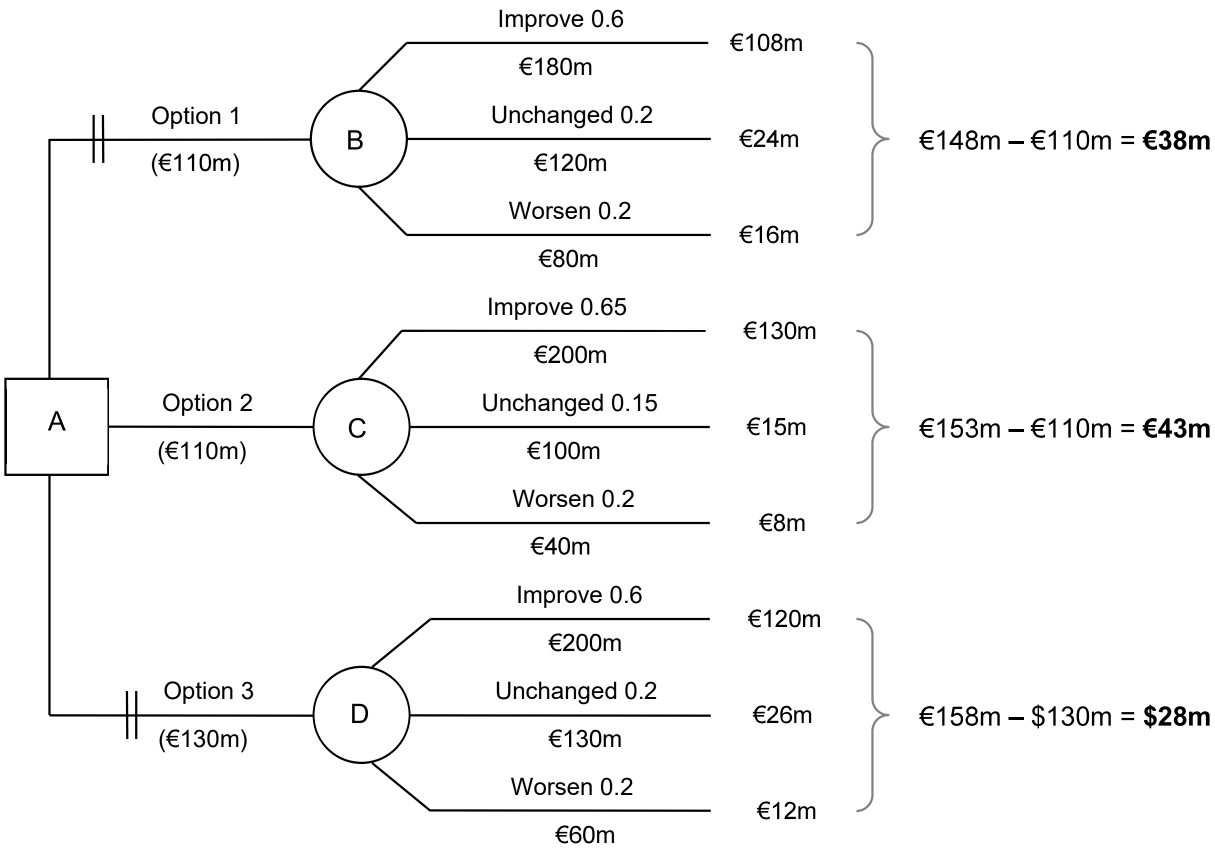
(d) With reference to the case study and your knowledge of business management, recommend which growth option ELE PLC should pursue. You will find it useful to construct a decision tree using the data provided above and to include the findings in your answer. ***[10 marks]***

A decision tree is a quantitative decision-making tool, used to simplify complex strategic options in a logical and objective way. As a visual tool, a decision tree can help the board of directors to make rational decisions by considering the probable outcomes of the various growth options, regardless of their personal preferences.

ELE PLC's three strategic options for growth are:

- Option 1 **–** Redevelop existing gasoline stations as convenience stores.
- Option 2 **–** Expand the car rentals division to India.
- Option 3 **–** Launch the new brand, In3T, in Europe with enhanced technology.

The decision tree on the following page suggests that **Option 2** is the most financially attractive growth option to pursue, with an expected monetary value (EMV) of €43 million.



Candidates should use their decision tree to support the explanation or recommendation of Option 2, discussed in the context of the case study. For example:

- Based on the decision tree analysis, it is financially feasible to pursue any of the three strategic options as the EMV is positive for all of these.

- If the directors choose to remain in Europe (Options 1 and 3), it can be seen that redeveloping the existing gasoline stations as convenience stores (Option 1) is the better option, because it yields a greater EMV of €10 million yet it costs €20 million less than Option 3.

- However, the most financially viable choice is Option 2, i.e., to expand the car rentals division to India. The EMV of this option is significantly higher than that for Option 3 and is forecast to yield an addition €5 million compared to Option 1 which costs the same amount of money.

- This is further reinforced by calculating the return on investment (ROI), which expresses the EMV as a percentage of the initial cost of a strategic option:

    - The ROI for Option 1 = €38m / €110m = 34.55%
    - The ROI for Option 2 = €43m / €110m = 39.09%
    - The ROI for Option 3 = €28m / €130m = 21.54%

    This is largely because the cost of Option 3 is €20 million more than the other options, yet there is a 40% chance that the economic conditions in Europe will not improve. This makes Option 3 a riskier strategic choice at this current time.

However, the decision tree analysis is a quantitative tool, so the directors are likely to also consider other factors, including qualitative considerations, prior to making a final decision. Some discussion points that the directors might consider, beyond the decision tree analysis, include:

- Economic growth is expected to be low in Europe, with France likely to go into a recession (Table 2). Therefore, expanding in Europe (be it Option 1 or Option 3) may be impractical at this point in time.

- Unemployment in India is higher than the average in the European countries (Table 2). Given the population size of India, the significantly large number of people without a job in India could be lower than expected sales revenue if ELE PLC were to expand its car rentals service in the country.

- The inflation rate in Europe (Table 2) is higher than that in India. This mean increasing production costs if ELE PLC chooses either Option 1 or Option 3. Hence, the impact of inflation needs to be considered as rising prices could distort the final outcome of any quantitative decision-making tool, such as decision trees.

- Interest rates are significantly higher in India (Table 2), which means that if ELE PLC needs to rely on external sources of finance to fund its expansion, this could be costly in the long term. In general terms, the lower interest rates in Belgium, France, and Spain make these locations more attractive to do business.

- Redeveloping ELE PLC's existing gasoline stations as convenience stores (Option 1) represents the lowest risk, based on Ansoff's growth matrix. This is because the company is operating in existing market and only expanding its provision of existing products – the company has operated convenience stores selling food and drinks items since 2005 (lines 48 – 52). This is an important consideration given that the higher risk of Option 2 is only forecast to yield an extra €5 million (see decision tree).

- Competition in the countries in which ELE PLC's car rentals operates is "fierce" (line 95, Oliver's report), whereas Monica's recommendation to launch the In3T brand, enhanced by technology, could give the company a "first-mover advantage."

- However, another reason in favour of Option 2 is that sales revenue growth for ELE PLC's car division is predicted to slow down significantly from 2022 onwards (line 95, Oliver's report). Hence, there is a need to expand its operation in new markets such as India, a country "with growth potential" for ELE PLC.

- *Accept any other argument that is substantiated and discussed in the context of the case study.*

Award [1 - 2 marks] for an answer that shows a limited understanding of the demands of the question. There is minimal, if any, application to ELE PLC.

Award [3 - 4 marks] for a simplistic answer that shows some understanding of the demands of the question, but with some/partial application of the case study.

Award [5 - 6 marks] for an answer that shows some understanding of the demands of the question, with use of the additional stimulus materials in Section B. However, there are 3 or more errors in the decision tree, and the discussion is unsubstantiated in some areas.

Award [7 - 8 marks] for an answer that shows understanding of the demands of the question, with application of the additional stimulus materials in Section B. The decision tree is largely accurate, although the discussion is unsubstantiated in some areas of the answer.

Award [9 - 10] for an answer that shows good understanding of the demands of the question and makes effective use of the case study and additional stimulus in Section B. The decision tree is accurate (allow up to 1 mistake for 9 marks), and the discussions are fully substantiated, using appropriate terminology throughout.

