ANSWER BOOKLET
LIVRET DE RÉPONSES
CUADERNILLO DE RESPUESTAS

① 29/30
=> not including section d responses

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4 PAGES / PÁGINAS

Candidate session number: / Numéro de session du candidat: / Número de convocatoria del alumno: 21 M TZ 0 P 2 - B M M L

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

Please write question numbers in the following format: / Veuillez numéroter les questions en utilisant la présentation suivante: / Sírvase escribir los números de las preguntas en el siguiente formato:

1 2 3 4 5 6 7 8 9 10

a) a step in brand development is that of ~~~~ ~~~~ creating its ~~the~~ name/logo/image/identity, and using a promotional mix to ~~~~ promote it to the masses (generally ATL) ✓ ✓ ②

bi) NPBIT = Revenue - COGS - Expenses
= Gross profit - expenses
1: \$24 000 ✓
2: \$27 000 → store 2 ~~~~ has highest NPBIT.
3: \$18 000 ①

bii) $NPM = \frac{NP}{SR} \times 100$

Store 1: $\frac{24}{180} \times 100 = 13.33\%$
Store 2: $27/223 \times 100 = 12.11\%$ ✓
Store 3: $18/170 \times 100 = 10.59\%$ ✓

∴ store 1 had the best profitability in 2020

②

ci) ASSETS = LIABILITY + EQUITY
→ EQUITY = 200 000 − 120 000
= $80 000

1

cii) Total NPBIT = 24000 + 27000 + 18000
= $69 000
Capital employed = 50000 + 80000
= $130 000

$\therefore$ ROCE = $\frac{69\,000}{130\,000} \times 100$

= 53.08%

2

d) long term debt usually represents a type of external finance like a mortgage or debenture. ~~It will~~ ~~ZAGR~~ The higher the amount of debt a business has, the greater its interest will be on the profit and loss. ~~As $50 000 in debt~~ Hence, the overall net profit is likely to decrease.

2

a) - research and ~~dev~~ development into new products or ideas
- generally improves the product or service available to the customer.

2

b) advantage: SSC need not participate in as costly market research if they focus more on their products than they do their consumers. This way, SSC can continue
~~disadvantage: high risk of failure if the +~~
fulfilling their brand image of valuing health above fashion, as they need not pay as much attention to the fashion market, which is very volatile.

disadvantage: there is often a high chance of failure within product oriented businesses, as not enough primary or secondary research is completed during the R&D stage to test product viability. ~~Tiffany~~ Chelsea even states that a failure of their ~~new~~ potentially new product would see 7 years of costly R&D go to waste.

4

c) Advantage: ~~brand~~ brand ~~to~~ value is built through the use of CSR, as customers are more likely to purchase products (even pay more for them) if they ~~have~~ been ~~socially~~ responsibly made. This manifests its self in the fact that pressure

not really relevant → groups, which are largely representative of social opinion, praise SSCs CSR.

Disadvantage: acting with high levels of social responsibility will increase costs such as COGS, because, for example: raw materials sourced ethically will cost more. subsequently, this will reduce SSCs profit margins if they are to remain competitive with the multinational threats to the organisation, as identified by Chelsea. 3

d) In order to ~~cope with rising~~ compete with large multinational companies dominating the global skincare market, Chelsea wants to float her company ~~from private~~ to a public company as a method of growth and expansion.

Driving forces		Restraining forces
	Become a Public Limited Company	
access to (3) share capital -		- dilution of ownership and strategic direction (4)
		- risk of takeover (3)
accelerate (2) growth ~~through~~ -		- ~~does not directly address the multinational threat~~ ~~(4)~~
5	<	7

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3

The largest benefit of becoming a public limited company (PLC) is that SSC will be able to raise share capital as an external source of ~~finance.~~ finance. Initially, ~~SSC~~ the company can "float" by releasing an initial public offering, in which a percentage of the business is made available to be sold on the share market. After that, the owners of SSC may continue to sell shares, each time recieving ~~a~~ ~~the~~ more external finance with no debt obligations. This external finance ~~as~~ could be invaluable to SSC, as they place R&D at the forefront of their product oriented approach. Hereby, they could finance this research without the potential of severe liquidity issues.

Raising finance through shares, of course, means that ownership in the business is diluted. This would make SSC more vulnerable to a takeover by one of the larger multinational firms that Chelsea has identified. This is because the multinationals will be aiming to retain as much market share as possible, meaning that the acquisition, whether hostile or not, is a good method of external growth for them. This would become a continual risk for SSC, as the less ownership over their own company that they have the easier it is for a multinational to purchase them.

A second disadvantage that stems from ~~the~~ a public floatation is that of diluted control over business ~~obje~~ objectives. ~~R~~ Shareholders have a large interest, and at time high power on the stakeholder mapping, meaning that it is ~~ver~~ important to keep them happy when making business decisions. For businesses like SSC, where CSR is important, Tiffany's concern that the marketing approach and mission ~~for~~ could be altered for profitability is valid. After all, economic sustainability is a key component of the triple bottom line. Specifically, shareholders will want more dividends which comes from increased profitability, meaning stricter measures would likely be placed on the types of suppliers of raw materials. This is a major issue which can have disasterous impacts on SSCs current positive and loyal customer base of younger women, and relies upon it ~~to~~ for word-of-mouth promotion.

Finally, an advantage of becoming public is to accelerate growth. For SSCs product-~~based marketing~~ oriented marketing strategy, they need to fince it through a variety of methods. Becoming public would likely give them access to lower risk debt, hence letting them reduce the opportunity costs of the capital-intensive innovation process. This advantage is, however, limited as many sources of finance are already available to private limited companies, hence is only rated as a "2" on the FFA.

TO conclude, ~~SSC's~~ SSCs proposal to become a public limited company is limited, as the identified disadvantages of dilution of ownership and risk of a take over far outweigh the relatively limited ~~ad~~ advantages on the FFA. For this ~~reason,~~ reason, it is ~~a~~ recommended that SSC does not participate in this strategy.

H a) a niche market refers to a small and specific market segment which is targeted for a specific product. 2

b) - e-commerce offers a way in which businesses may improve the "process" of their business, part of the extended marketing mix. In the case of RV, e-commerce has helped them address key issues related to process such as ~~cus~~ engaged phone lines. This way, customers are offered a new way in which they may ~~market~~ ~~their~~ ~~business~~ ~~process,~~ access the business as websites are easier to use, and quicker ~~too~~.

- while RV currently does not operate much outside of ~~thes~~ their ~~to~~ current customer base, having an established online e-commerce site could help them expand with relatively ~~a~~ low capital expenditure, as they need not rely only on physically locating themselves in new stores, which is expensive. 4

c i) PBP = (Investment cost)/(annual net cash flow)

= ~~35000000~~ 3500000/600000

= 5.83 years → 0.83x12 = 9.96 months

≈ 5 years and 10 months

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c ii) Payback period is a very simplistic tool that relies on accurate forecasting. The information provided by RV assumes a linear net cash inflow due to the investment, which is unlikely to be the case, and shows a clear weakness in the usefulness of a PBP, especially when only limited financial data is provided. 2

d) In order to cope with increasing competition and market saturation, RV is experiencing longer losses ~~of a~~ from 2017 to 2020 due to the need to ~~be co~~ maintain competitive pricing strategies with competition. To solve this issue, RVs directors are considering the following options:

Force-Field Analysis (FFA)

Driving		Restraining	Driving		Restraining
	offshore			new job	- relatively long
(3) economies of		- loss in	maintain -	production	PBP with short
scale through		quality	loyal customers	techniques	term crisis ~~(3)~~ ~~(2)~~
batch production		control (5)	~~(2)~~ (3)		(4)
3	L	~~4~~ 5	3	~~2~~ L	~~2~~ 4

4

Offshoring production to China will result in a variety of economies of scale which are not often available in contries like the United States. Primarily, reduced labour and raw material costs can be seen as a ~~majoor~~ major advantage for RV as they are currently experiencing losses due to thinner profit margins. Market saturation is a key driver towards the lower pricing amongst rivals, hence ~~it~~ in order to ~~keep~~ sustainably maintain ~~there~~ their market share, the offshoring would enable RV to ~~ch~~ charge more competitive prices. Furthermore, the use of batch production enhances the idea of economies of scale, as reasonably large quantities of the bicycles at any given time. It also gives an element of flexibility to complete similar niche product manufacturing within the different batches, however whilst also benefitting from economies of scale.

However, the act of changing production methods can be problematic, ~~becau~~ especially with niche businesses. This is because currently, while job production is expensive, it enables RV to build brand loyalty through their ~~the~~ USP, "hand made to order". Option 1, therefore, would inflict serious damage on RVs loyal customer base, as they would lose their USP, hence also lose market share. This way they would also lose any brand value which they currently have through their USP, ~~and~~ meaning they would further need to lower prices, in order to remain competitive. These forces are so great that they amalgamate into a five on the FFA shown previously.

The greatest advantage (driving force) of undertaking option 2, ~~a~~ - invest in new job production techniques, ~~it~~ is that it is a strategy that works in line with RVs target market segment, ensuring they maintain their weak, yet loyal customer base. The mentioned investment would be expensive, however will provide significant net cash returns over the payback period of ~~x~~ 5 years. Furthermore, they will be able to maintain their current pricing strategies, despite market saturation, due to a clear dedication to their USP, hence adding brand value. While this driving force is significant, it does little to help RV in the short term, which is why it was rewarded a modest 3 on the FFA.

Finally, a disadvantage of option 2 is that the ~~short~~ long payback period ~~is~~ presents a variety of issues with regard to the short term management of the crisis at hand. In fact, the investment cost of \$3.5 million is likely to put RV under more financial strain, further ~~reducing their~~ increasing their risk. It is likely that RV would need to take out loan capital in order to fund this investment, which would

4

reduce their working capital in the future. In retrospect, RV would be better off using any external finance raised to improve their short term liquidity, and sustain the current crisis whilst attempting to find a different solution to the problem.

In conclusion, it is recommended ~~that~~ that RV does ~~not~~ not participate in either of the proposed options, as they will both negatively impact the business in the short term, as mentioned previously. This can be further substantiated by the FFA, which shows the restraining forces outweigh the driving forces on both the suggested changes.