IB Business Management – Paper 1 Case Study Pack
Case Study: ELE PLC
SL Mock examination – Mark scheme

For November 2022 examinations

TEACHERS' NOTES

- These are suggested answers only.
- Teachers should use their professional judgment in awarding answers that may not be included in this mark scheme.
- The data and information included in Section B are provided for illustrative purposes only, in order to provide students with practice for the final examination in November 2022.

SECTION A

1. (a) Describe <u>one</u> advantage and <u>one</u> disadvantage of stratified sampling (line 40).
[4 marks]

Stratified sampling is a probability sampling method whereby the researcher splits the sample into groups (called strata) with a random sample chosen proportionately from each stratum (the sub-population) for market research purposes.

Possible advantages could include an outline of any one of the following points:

- It improves representation of the various subgroups or segments of a particular market for a good or service. This helps to get more representative results.
- It limits researcher bias in sampling for market research purposes. This helps to ensure results/findings are more accurate or representative of the market.
- *Accept any other relevant advantage that is clearly outlined.*

Possible disadvantages could include an outline of any one of the following points:

- It is time consuming and complex as market researchers need to ensure every member of the population fits into only one stratum. They also need to ensure all strata must collectively contain all members of the population.
- It can be difficult to determine the appropriateness of the strata used. For example, some subgroups are not always easy to identify, such as race, ethnicity, and religion.
- *Accept any other relevant advantage that is clearly outlined.*

Mark as 2 + 2

Award [1 mark] for <u>each</u> appropriate point that is clearly stated, and an additional [1 mark] for a clear description, up to the maximum of [4 marks].

There is no need to apply these points to the ELE PLC case study.

(b) Explain the role of staff appraisals (line 73) at ELE PLC's car rental division.
[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.

The role or purpose of staff appraisals include:

- *To measure performance* – A key purpose or role of appraisals is to ensure employees are working to the required standard as per their employment contracts. An example is measuring the extent to which employees have ambition and initiative (line 70). This means that appraisals are used to hold employees accountable for their work and performance.

- *To reward employees for high performance* – Those who meet or exceed their performance targets may be eligible for bonuses, pay rises, and even internal promotion to managerial positions (line 72).

- *To identify staff training and development needs* – Staff appraisals, such as ELE PLC's self-appraisals, present opportunities for managers to identify training and development needs. For example, the appraisal systems used in the car rental division help manager to identify specific staff development needs. This helps the company to personalize training (lines 79 - 80), rather than providing generic training to all employees. This also helps to map out the career paths of the employees.

- *To give 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 as well as provide Giselle and her managers with potentially meaningful and useful feedback.

- *To improve staff performance* – Ultimately, the role of staff appraisals is to improve the performance and productivity of workers in the car rentals division. Using monthly appraisal meetings (line 74) helps Giselle and her managers to identify which employees have performed well. For under-performing employees, the summative appraisals (line 73) help to identify skills gaps and training needs so that the workers can perform their roles better.

- *Accept any other relevant role or purpose of staff appraisals, written in the context of the ELE PLC case study.*

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

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

Award up to [6 marks] if the answer demonstrates good understanding of the demands of the question. The response shows detailed explanations of the importance of staff appraisals for ELE PLC. There is appropriate use of terminology throughout the answer, with effective application of the stimulus material.

2. (a) Describe <u>two</u> features of a public limited company (line 4). ***[4 marks]***

Possible features could include a description of any two of the following points:

- A public limited company (PLC) is an incorporated business, so the owners are a legal separate entity from the organization itself.
- The company is listed on a Stock Exchange, i.e., its shares can be legally traded (bought/sold) on a public stock exchange to/by the general public.
- The company is owned by its shareholders, who have voting rights based on the number of shares they own in the business.
- As part-owners of the company, shareholders are entitled to a proportion of any dividends distributed by the business at the end of its trading year.
- Shareholders (owners) have limited liability, i.e., they cannot lose more than the value of their investment in the company if it collapses / goes bankrupt.
- *Accept any other relevant feature that is clearly described.*

Mark as 2 + 2

For each point, award [1 mark] for a feature, plus a further [1 mark] for the description, up to a total maximum of [4 marks].

Application is not required for this question.

(b) Explain how changes in any <u>two</u> STEEPLE factors in the external environment might pose a threat to ELE PLC's gasoline stations division (see Oliver's report). ***[6 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. This will continue to reduce the demand for petrol and diesel fuelled cars, thereby reducing revenue streams from ELE PLC's gas stations (95, Oliver's report).
- *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. Furthermore, sales revenue growth for ELE PLC's car rentals division is predicted to slow down significantly from 2022 onwards, further threatening the company's financial position.
- *Legal factors* **–** Government bans on the sale of new sales of new gasoline and diesel cars will be enforced in many parts of the world, including throughout the European Union from 2030 (line 95, Oliver's report). This is likely to make petrol (gasoline) and diesel a redundant product in the near future. Hence, the bans will seriously threaten the revenues of ELE PLC's gasoline station division.

- *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.

3. (a) In the context of ELE PLC, describe the difference between internal and external sources of finance (lines 19 and 58). ***[4 marks]***

Internal sources of finance are the ways in which a business raises funds from within its own organization using its own resources, such as retained profit (lines 53 and 58). By contrast, external sources of finance refer to funds that come from outside the business, using third party providers (line 58).

Possible internal sources of finance for X include:

- *Retained profit* – ELE PLC’s three divisions are all profitable (line 90), so this provides an important internal source of finance for the company, such as its €49 million takeover of Zeat PLC by using internal sources of finance (line 19).

- *Sale of fixed assets*, such as selling off the gasoline pumps at ELE PLC’s least profitable petrol stations (line 98 – 100), or the sale of its petrol and diesel fuelled cars in the car rentals division if the company switches to all-electric vehicles (line 120).

Possible external sources of finance for ELE PLC could include:

- Share capital – Although ELE PLC is a family-run business (line 10), being a public limited company (line 4) means the owners (De Smet family) are a separate legal entity from the company itself (ELE PLC).

- Loan capital – Finance from commercial banks, for example, may have been appropriate as ELE PLC needed external finance to open its car rental business in 2010 (lines 57 – 58).

- *Do not accept external sources such as overdrafts, debt factoring, grants, subsidies, or microfinance providers as these are not appropriate to ELC PLC.*

It is not expected or necessary to include all of the examples above – they have been included in the mark scheme for illustrative purposes to show example of application to 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 internal and external sources of finance 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 between internal and external sources of finance. There is effective use of appropriate terminology and application throughout the answer.

(b) Explain the value to ELE PLC of producing business plans (lines 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. It is prepared by the owners (or the directors in the case of ELE PLC) and describes the market, sales strategy, operations, financial forecasts, and staffing needs of the business.

Possible benefits include an explanation of any combination of the following points:

- To make better informed decisions, such as the future strategic direction of ELE PLC (line 95, Oliver’s report).

- To reduce or minimize risks, such as including details of the threats to the gasoline station division (line 95, Oliver’s report).

- Similarly, forward planning also helps ELE PLC to avoid possible mistakes and crises, such as expanding into India without knowing much about the domestic car rentals market.

- To prove the viability of the business proposal - Monica saw the points in Oliver’s report as opportunities, whereas both Hugo and Giselle saw these as challenges. Hence, the business plans help the directors to make more informed and objective decisions.

- Given the uncertainties facing ELE PLC, producing business plans helps the owners to gain a better understanding of changing markets. Business plans also help 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.*

Application of the stimulus material in the case study is required for [4 marks] or more.

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 and theoretical.

Award a maximum of [4 marks] if there is some understanding of the demands of the question, but the answer lacks depth in the explanation. At the top end of the mark band, there are attempts to apply theory to the case study.

Award [6 marks] if there is a good understanding of the demands of the question, with a detailed and considered response to the question. There is appropriate use of theory and terminology throughout the answer, which is suitably applied to the case study.

SECTION B

4. (a) (i) Define the term *brand awareness*. ***[2 marks]***

Brand awareness refers to the extent to which a brand name is recognised or well-known to its potential market audience. Brand leaders will have high brand awareness amongst their existing and potential customers whereas less known brands will have low brand awareness.

Students are not expected to word their definition exactly as above.

Note: application to the case study is not required or expected for full marks.

Award [1 mark] for a definition that demonstrates only partial understanding of brand awareness.

Award [2 marks] for a definition that demonstrates a clear understanding of brand awareness, similar to the example above.

(ii) Explain <u>one</u> advantage for Zeat PLC having high market share. ***[2 marks]***

Possible advantages could include an explanation of:

- *Increased customer base* – The larger a firm's market share, the more customers the firm tends to have. High market share means the business enjoys a larger customer base or wider market segments. This helps to increase sales revenues and profits.

- *Economies of scale* – larger firms, as indicated by their market share, are able to enjoy cost-saving benefits of growth. This helps Zeat PLC to improve its appeal to customers as the products can be priced more competitively.

- *Brand reputation* – Customers are more familiar with larger brands, which helps to raise sales revenues and brand loyalty. Customers are also more assured about a product's quality if it has a good reputation, such as Zeat's MiniC, especially if there is high brand awareness and brand loyalty.

- *Better bargaining position* – Larger firms are in a better position to negotiate with suppliers, distributors, contractors, and financiers. This helps to improve their profitability.

- *Accept any other appropriate advantage that is explained in the context of the case study.*

Award [1 mark] for a response that shows some understanding of the demands of the question.

Award [2 marks] for a response that shows good understanding of the demands of the question, with appropriate application shown.

(b) Using the financial data in Table 1, calculate the gross profit margin (GPM) for ELE PLC for 2021. ***[2 marks]***

- Gross profit = Sales revenue – Cost of sales = €330bn – €110bn = €220bn
- Gross profit margin = (Gross profit / Sales revenue) × 100
- GPM = (€220bn / €330bn) × 100 = 66.67%

Award [1 mark] for the correct answer and [1 mark] for showing appropriate working out.

There is no need to include the formulae – these are shown above for illustrative purposes only.

(c) In the context of the case study, distinguish between ELE PLC's revenue expenditure and its capital expenditure. ***[4 marks]***

Capital expenditure refers to investment spending by ELE PLC on acquiring, maintaining, and/or upgrading its fixed assets and to broaden its capital base. It represents a financial investment in the business, such as the expenditure on refurbishing the of the gasoline station retail stores, in which the floor space in each store was increased (lines 49 – 50) or ELE PLC's purchase of motor vehicles for its car rental division (line 55).

By contrast, *revenue expenditure* is the money that ELE PLC needs for the day-to-day or routine running of the business. Examples include the wages and salaries for the company's employees, remuneration for the board of directors, payments made to suppliers, and the payment of general expenses (such as insurance and utilities bills) for the running of ELE PLC.

Accept any other relevant distinguishing feature of capital and revenue expenditure, 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 between the two terms. There is effective use of appropriate terminology and application throughout the answer.

(d) Using information from the case study and your own knowledge of business management, recommend which of the two options should be implemented. You will find it useful to construct a balance sheet from the data in Table 1 as part of your answer. ***[10 marks]***

Balance sheet for ELE PLC as at 31 Dec 2021

	€m	
Fixed assets	280	
Accumulated depreciation	10	
Net fixed assets		270
Current assets	150	
Current liabilities	100	
Working capital (net current assets)		50
Total assets less current liabilities		320
Long-term liabilities (debt)	100	
Net assets		**220**
Share capital	130	
Retained profits	90	
Equity		**220**

The following can be ascertained from the financial position of the company, shown in the above balance sheet:

- ELE PLC's working capital is €50 million (more than the amount the company paid to acquire Zeat PLC back in 2000). On its own, this is a healthy amount of liquid assets that the company can use to run and expand its business.

- The value of the firm's net assets is a healthy €220 million (without being given last year's figures). This shows the value of the company's total assets minus its total liabilities, i.e., Fixed Assets + Working Capital – Long term liabilities. This helps to put ELE PLC in a favourable position to seek external finance to fund its growth.

- A current ratio of 150/100 = 1.5:1. What this shows is for every €1 of current liabilities, the company has €1.50 of current assets, meaning it is in a favourable liquidity position. This helps to support its expansion plans.

- The company's gearing ratio is 100 / (100 + 220) = 31.25%. What this shows is that ELE PLC is has quite high gearing because for every €100 invested in the company, €31.25 is financed by debt. In other words, almost a third of the firm's internal and external sources of finance are long-term liabilities. This could raise some concerns from financiers, especially if ELE PLC intends to expand in unfamiliar overseas markets.

Arguments in favour of Option 1 (Giselle's proposal to expand into India) include:

- India is a "high-growth market" and has a "large population of 1.38 billion people" which helps the car rentals division to increase its customer base. The stimulus material in Section B also mentions such conditions means that "India is a market with growth potential" and that "ELE PLC can expect high returns on their initial investment (in India)."

- Oliver's report shows there is many opportunities to expand to India. For example, "foreign and domestic tourism is growing" so there is potential for the car rentals market to grow. By contrast, in Europe, sales revenue growth is expected to slow down significantly from 2022.

- ELE PLC needs to look for opportunities in new markets due to the imminent government bans on the sale of new petrol and diesel cars (line 95, Oliver's report). India provides such an opportunity, with its large population and because the government "has no intention banning the sale of petrol or diesel fuelled vehicles in the foreseeable future."

Arguments in favour of Option 2 (Monica's proposal to expand into India) include:

- Operating in existing European markets represents lower risks because ELE PLC is familiar with the existing market (unlike India). Furthermore, the company has no experience in human resource strategies that might work in India; its graduate recruitment policy and training programme (line 68) might be a success in Europe, but this does not mean the same HR practices will work in India.

- Given the fierce competition (line 95, Oliver's report), avoiding the need to innovate could be detrimental to ELE PLC's success. For this reason, twins Oliver and Monica feel that it was important for the company to innovate over the next decade (fundamental changes are needed) in order to remain competitive.

- For the same reason, launching a new brand, In3T, with its enhanced by technology can help ELE PLC's car rental division to gain a first-mover advantage (line 118) in Europe.

Accept any other relevant and substantiated argument in favour of either strategic option, using the pre-issued case study, the additional information in Section B, and written in the context of the case study.

The decision not only depends on the financial position of the company (its balance sheet), but also on the relative negotiation power of the directors. Whilst Hugo might agree with Giselle (he argued that "expanding into the Indian market would be invaluable for increasing brand awareness"), the twins are united in their recommendation for the company to innovate within the European market. However, none of this might even matter given that Emma and Lucas still have the majority stake in the company, with a combined 52% of the shares (line 5).

Nevertheless, a final decision is unlikely to be made without examining further data about the costs of the two options (the high costs of capital expenditure), given that the board of directors agree about minimising financial risks.

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 partial application of the ELE PLC case study.

Award [5 - 6 marks] for an answer that shows some understanding of the demands of the question, with use of the additional data in Section B. However, there are 3 or more errors in the balance sheet, and the discussions are not always substantiated.

Award [7 - 8 marks] for an answer that shows understanding of the demands of the question, with use of the additional data in Section B. The balance sheet is largely accurate, and there is clear application although the discussion is unsubstantiated in some areas.

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