Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

BUSINESS **9609/31**

Paper 3 Case Study **October/November 2017**

3 hours

No Additional Materials are required.

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READ THESE INSTRUCTIONS FIRST

An answer booklet is provided inside this question paper. You should follow the instructions on the front cover of the answer booklet. If you need additional answer paper ask the invigilator for a continuation booklet.

Section A
Answer **all** questions.
Section B
Answer **one** question.
You are advised to spend no more than 40 minutes on Section B.
The businesses described in this paper are entirely fictitious.

The number of marks is given in brackets [ ] at the end of each question or part question.

This document consists of **6** printed pages, **2** blank pages and **1** Insert.

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CAMBRIDGE
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Kwik Karrier Services (KKS)

Two brothers started KKS 35 years ago as a delivery service using just one vehicle. The business has grown and is now a public limited company. KKS delivers parcels of any size and weight throughout country X. It is one of the largest delivery service providers in a very competitive market. KKS's vision statement 'to be the most reliable delivery service' has been key to its success.

The parcel delivery market has three segments:

- B2B: Business to Business parcels (55% of total market)
- B2C: Business to Consumer parcels (39%)
- C2C: Consumer to Consumer parcels (6%).

KKS currently only operates in the B2B segment.

The directors of KKS have an objective of rapid growth for the business. They are considering possible strategies to achieve this.

A takeover opportunity
Following research, the Operations Director has recommended that KKS makes an offer to take over VantoU, a business in the B2B segment in country X. KKS values VantoU at $600m. An offer based on this valuation would be financed by a new share issue of $400m plus $200m from long term loans. VantoU's directors are likely to recommend accepting this offer. Additional directors may have to be appointed to the Board of KKS. There will be both financial and marketing effects resulting from this takeover. The employees at all levels of both businesses will be affected. KKS does not know how competitors and the Government might react to the proposed takeover.

Accounting and financial decisions
The KKS Finance Director has been considering the following two issues with reference to data in Appendix 1.

1. Finance of takeover.
2. Depreciation policy. In 2018 KKS plans to invest $20m in IT equipment. The current depreciation policy would be to depreciate these assets over a five year period, with an estimated residual value of $5m. The Finance Director is proposing a new depreciation policy which would reduce the period of depreciation to three years with a residual value for these assets of $8m.

Marketing strategy in country X
KKS used to promote its services only using trade journals and business fairs. However, three years ago KKS invested in a website and this now produces the majority of sales. This has contributed to KKS gaining a high market share in the B2B segment, supported by competitive pricing and good customer service. This segment is a low growth part of the total parcel delivery market, whilst B2C and C2C are growing rapidly.

KKS is planning to integrate the marketing and distribution network IT systems. Enterprise Resource Planning (ERP) software could be used to minimise the costs of moving vehicles to match customer requirements. Costs would then fall and more contracts gained.

Market analysis: options A and B
The Marketing Director and Finance Director have also researched the B2C and C2C segments. They have set out the following two options for expansion.

Option A: Enter the B2C segment. KKS would need to make some changes to existing marketing methods. The competition is very strong, customers are price sensitive and profit margins are small.

Option B: Enter the C2C segment. Competition is weak. Staff training and operational costs will be high. Parcel collection locations will be needed. A different marketing approach will be needed.

The directors have carried out decision tree analysis to compare the likely returns from expanding into the B2C and C2C segments. Appendix 2 shows some results of their analysis. The directors have assumed costs and revenue will remain constant for each of the first three years.

Managing the workforce

KKS directors view the workforce as a key component in being the most reliable delivery service. There are 8500 employees in 64 warehouses and two administration centres. Employees are placed in one of the following departments: Operations, Administration and Finance, IT, Marketing, Human Resources. Within each department every manager has a wide span of control.

KKS invests in its employees through developing their skills and enabling clear career progression. Most supervisors have been promoted from inside KKS. New employees have a training needs analysis and their line manager discusses possible training opportunities with them. Employees are encouraged to contribute to decision making. They are given encouragement to gain experience through job rotation and there is a generous bonus for good performance. In return KKS expects commitment, enthusiasm and hard work.

A new Human Resources Director has recently been appointed. He has noticed that employees are trusted to carry out their roles effectively but often do not do so. This leads to inefficiency and a lack of focus. He has produced a report that proposes making the following changes to increase the accountability of employees:

- Clearer job descriptions with less scope for individual interpretation
- Introduction of Management by Objectives with precise targets
- Increased formal communication between managers, supervisors and other employees
- Less rotation between jobs
- Focused training which is decided by supervisors rather than by discussion.

However, some other directors think that the business environment demands stability within KKS's organisation.

Strategic thinking: international expansion

The directors are concerned that expanding just within country X may be insufficient to reach their growth objective. They have made a decision to use their experience and strength in the B2B segment to start selling their B2B services in other countries. Appendix 3 shows the results of initial research into market conditions in country Y.

The directors recognise that the strategic decision to move into international markets needs to be carefully planned and implemented. It is likely to involve changes to:

- leadership and management
- organisational structure
- corporate culture
- contracts of employment for key employees
- allocation of resources.

The directors believe that if these changes are managed effectively then this will minimise the risks associated with international expansion.

Appendix 1: Extract from KKS's published accounts

Statement of financial position as at 31 October 2017	$m
Non-current assets:	
Land and buildings	1200
Vehicles	254
IT equipment	10
Total non-current assets	1464
Non-current liabilities:	
Long term loans	300
Shareholders' equity:	
Ordinary shares	600
Reserves	800
Income statement for the year ending 31 October 2017	$m
Revenue	1800
Gross profit	500
Overheads (including depreciation)	312
Profit before interest and tax	188
Interest	20

Appendix 2: Decision tree data for first three years

	Total capital costs $m	Probability of outcomes	Total expected returns $m
Option A:	32	0.4	50
		0.6	35
Option B:	45	0.3	90
		0.7	40

Appendix 3: Market data for country Y

Market share: Largest delivery service provider Largest five delivery service providers	 45% 75%
Forecast parcel market growth, 2018–20	20%
Most important factors for customers in order of importance	1. Low price 2. Fast delivery 3. Fixed delivery time 4. Security

Section A

Answer **all** questions in this section.

1 Analyse the possible disadvantages for KKS of taking over VantoU. [10]

2 **(a)** Refer to Appendix 1 and other information. Calculate the gearing ratio after the takeover of VantoU. [4]

(b) Refer to lines 24–28. Calculate the difference between the current and proposed annual depreciation expense of the IT equipment to be purchased in 2018. [4]

(c) Discuss the importance of the data in Appendix 1 to KKS's stakeholders. [12]

3 Evaluate the usefulness of a marketing plan for successful expansion through option B. [16]

4 **(a)** Refer to Appendix 2.

(i) Draw a decision tree using this information. [4]

(ii) Calculate the expected monetary values for options A and B. [2]

(b) Recommend whether KKS should choose option A or B. Justify your answer using your results from **4(a)** and other information. [12]

5 Discuss whether KKS should introduce the new HR Director's proposed changes (lines 63–67). [16]

Section B

Answer **one** question from this section.

6 Discuss the extent to which the information in Appendix 3 is sufficient strategic analysis to allow KKS to consider entering the market in country Y. [20]

7 Evaluate how KKS could successfully achieve the strategic implementation of its decision to expand internationally. [20]

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