



22105011



**BUSINESS AND MANAGEMENT
HIGHER LEVEL
PAPER 1**

Tuesday 4 May 2010 (afternoon)

2 hours 15 minutes

INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- Read the case study carefully.
- Section A: answer two questions.
- Section B: answer the compulsory question.
- Section C: answer the compulsory question.

SECTION A

Answer **two** questions from this section.

1. (a) Define the following terms:
- (i) *product life cycle (line 32)* [2 marks]
 - (ii) *brand loyalty (line 51)*. [2 marks]
- (b) With reference to *N-Pharma* and its new drug *Pharmatics*, distinguish between “above the line and below the line promotion” (line 45). [4 marks]
- (c) Analyse the role of branding in the global market for *N-Pharma*’s drugs. [7 marks]
2. (a) “Since 1980, *N-Pharma* has been a public limited company with its shares traded on the Tokyo Stock Exchange” (lines 83–84). Outline **two** key aspects of this form of ownership. [4 marks]
- (b) Prepare a SWOT analysis showing **only** the opportunities and threats for *N-Pharma*. [4 marks]
- (c) Analyse *N-Pharma*’s position using the information in the SWOT analysis (additional information, page 3) and your answer to part (b). [7 marks]
3. (a) Define the following terms:
- (i) *profitability (line 64)* [2 marks]
 - (ii) *liquidity (line 111)*. [2 marks]
- (b) Using data from Appendix 2, calculate the liquidity ratios for the USA subsidiary of *N-Pharma* in the financial years 2008 **and** 2009. [4 marks]
- (c) Analyse **two** possible financial strategies to improve the values of the liquidity ratios in the USA subsidiary of *N-Pharma*. [7 marks]

SECTION B

Answer **the compulsory** question from this section.

4. (a) Define the following terms:
- (i) *delegation (line 59)* [2 marks]
 - (ii) *performance-related pay (PRP) (line 72).* [2 marks]
- (b) Explain the difference between crisis management (*lines 111–112*) and contingency planning for the USA subsidiary. [4 marks]
- (c) Laura Davies anticipates “that the Australian employees of *N-Pharma* will respond positively to non-financial rewards” (*lines 80–81*). Explain how non-financial rewards might affect job satisfaction and productivity. [4 marks]
- (d) To what extent would a change in Susan James’ leadership style improve productivity and morale at the Canadian subsidiary of *N-Pharma*? [8 marks]

Additional information

Strengths and weaknesses from a SWOT analysis for <i>N-Pharma</i>
<p>Strengths</p> <ul style="list-style-type: none"> • <i>N-Pharma</i> is a well-established multinational company (MNC) with subsidiaries in several countries within the Pacific Rim. • <i>N-Pharma</i> is a well known brand name, attracting customer loyalty. • <i>N-Pharma</i> has a portfolio of drugs at different stages of their product life cycle (<i>e.g.</i> Pharmax, Pharmaflo, Pharmaslim, Pharmatics). • <i>N-Pharma</i> has large financial reserves and its shares are regarded by investors as safe and relatively risk free. <p>Weaknesses</p> <ul style="list-style-type: none"> • <i>N-Pharma</i> has experienced problems in some of its subsidiaries (<i>e.g.</i> human resources (HR) problems in Canada and Australia, liquidity problems in the USA). • <i>N-Pharma</i> has suffered a negative public image because of unethical practices. • <i>N-Pharma</i> operates in a very competitive business environment (generic drugs from competitors are cheaper than <i>N-Pharma</i> branded products).

SECTION C

Answer **the compulsory** question from this section.

5. *N-Pharma's* marketing manager recently returned from the USA where he met representatives of the animal drug company, *Anigam*. Following his visit, he prepared a report recommending that *N-Pharma* should diversify into the production and distribution of animal health products by subcontracting to *Anigam* before completing a full merger with the company (**Option 3**). He believes that *N-Pharma* should initially target the “companion animal market” (the pet market), but prepare for growth into other animal species sectors once the *N-Pharma* brand is established.

The following are key findings of the marketing manager’s report:

- In 2009, the global animal health industry was worth almost US\$18 billion (*Item 1*) with a growth rate over the previous year of 4.7%.
- Since 1999, the “companion animal health market” has grown by 6.6% per year. It now has a share of almost 42% (*Item 2*) of global animal pharmaceutical sales.
- Increasing numbers of pets are being treated for the same conditions that affect their owners, such as heart disease and obesity (*Item 3*). For example, the world’s biggest pharmaceutical company *Pfizer* sells *Slentrol*, the world’s first anti-obesity drug for dogs.
- Pharmaceutical companies are creating a range of “crossover products”, adapting existing human drugs for animal markets. Selling animal health products would minimize the time and cost of research and development (R&D), as *N-Pharma* could simply adapt and develop its existing human drug portfolio, such as *Pharmaflo* and *Pharmaslim*.

The marketing manager knows that several directors are concerned about the risks of this diversification as well as merging with *Anigam*, which has a corporate culture based on project teams and matrix structures. Like *N-Pharma*, *Anigam* has recently been accused of unethical animal experimentation.

- (a) Identify **two** benefits for *N-Pharma* of subcontracting production to *Anigam*. [2 marks]
- (b) Explain the role of a “Kaizen approach to change the corporate culture and encourage ethical practices” (*line 104*) within *N-Pharma*. [7 marks]
- (c) Examine how the use of Porter’s five forces model can help *N-Pharma* understand its competitive position before it enters the animal health market. [9 marks]
- (d) Using a decision-making framework and using information contained in the case study and Items 1 to 5, evaluate *N-Pharma's* diversification into the animal health market and its possible merger with *Anigam* (**Option 3**). [12 marks]

Additional information

Item 1: Market for animal health products in 2009 by region

Region	Value (US\$m)	Market Share (%)
North America	6095	34.1
Latin America	2080	11.6
Western Europe	5670	31.7
Eastern Europe	815	4.6
East Asia	2740	15.2
Rest of world	500	2.8
Total	17900	100.0

Item 2: Market for animal health products in 2009 by species

Species	Value (US\$m)	Market Share (%)
Companion animal	7470	41.7
Cattle	4750	26.5
Sheep	830	4.6
Pigs	2915	16.4
Poultry	1935	10.8
Total	17900	100.0

Item 3: Extract of a report from *Pfizer* about companion animal health

On average, USA pet owners spend US\$500 every year for their dogs' and cats' healthcare. With the growth of pet insurance this expenditure is forecasted to increase. The USA market for pet products and services reached US\$35.8 billion in 2008.

Companion animals are living longer and are considered part of the family. For animal health companies, the opportunity to provide drugs for aging pets is an attractive one. As they age, animals are being treated for the same conditions that affect their owners, such as heart disease and obesity. A quarter of all pet dogs and cats in the Western world are obese, according to a recent study by the USA *National Academy of Sciences*.

Item 4: Extract from a report about the animal drugs market in 2010

As a result of the world's growing population and global meat eating habits, the overall market for animal health products has increased, on average, by 3.6% between 2005 and 2009.

Companion animals now account for almost 42% of the world market for animal health products. Sales of companion animals in the USA were US\$4.5 billion in 2003 and forecasted to rise to US\$6.9 billion by the end of 2010. The high market growth rate allows the suppliers of animal health products to charge premium prices. The demand is so high that there have even been some shortages in supply.

However, 8 of the 10 largest animal health companies in the world are subsidiaries of big pharmaceutical companies. The combined market share held by the three leading companies is in excess of one-third of total global sales. There are significant barriers to entry to the market, both economic and legal. The market is adversely affected by the economic recession in the short term.

Buyers of animal health products have been able to influence companies to lower prices as the recession developed. More generic products are entering the market place. Subsequently profit margins have begun to fall in recent years.

To cut costs, production is increasingly shifting to the regions of the world where labour and technology is cheaper.

Item 5: Forecast global market value for animal health products 2010 to 2014

Year	US\$m
2010	15 100
2011	16 200
2012	20 300
2013	23 800
2014	27 200