



MARKSCHEME

November 2010

BUSINESS AND MANAGEMENT

Higher Level

Paper 1

22 pages

*This markscheme is **confidential** and for the exclusive use of examiners in this examination session.*

*It is the property of the International Baccalaureate and must **not** be reproduced or distributed to any other person without the authorization of IB Cardiff.*

The markbands on pages 3–6 should be used where indicated in the markscheme.

Section A			Level descriptors
(c) questions			
Q1 (c)	Q2 (c)	Q3 (c)	
Marks 0–7			
0			<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology.
1–2			<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No reference is made to the information in the case study.
3–5			<ul style="list-style-type: none"> • A description or partial analysis/examination with relevant knowledge and/or understanding of relevant issues, concepts and theories. • Some use of appropriate terminology. • Some reference is made to the information in the case study, not just to the name of the organization. • At the lower end of the markband responses are mainly theoretical.
6–7			<ul style="list-style-type: none"> • A balanced analysis/examination with accurate, specific, well-detailed knowledge and understanding of relevant issues, concepts and theories. • An analysis/examination that uses appropriate terminology throughout the response. • Explicit references are made to the information in the case study.

Section B	Level descriptors
Q4 (d)	
Marks 0–8	
0	<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology.
1–2	<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No evidence of judgments and/or conclusions. • No reference is made to the information in the case study.
3–4	<ul style="list-style-type: none"> • A description with some knowledge and/or understanding of relevant issues, concepts and theories. • Some use of appropriate terminology. • No evidence of judgments and/or conclusions. • Some reference is made to the information in the case study, not just to the name of the organization. • The response is mainly theoretical.
5–6	<ul style="list-style-type: none"> • A response with relevant knowledge and understanding of relevant issues, concepts and theories. • A response that uses relevant and appropriate terminology. • Evidence of judgments and/or conclusions that are little more than unsubstantiated statements that have balanced analysis and demonstrate understanding. • Explicit references to the information in the case study are made at places in the response.
7–8	<ul style="list-style-type: none"> • A response with accurate, specific, well-detailed knowledge and understanding of relevant issues, concepts and theories. • A response that uses appropriate terminology competently throughout the response. • A response that includes judgments and/or conclusions that is well supported and underpinned by a balanced analysis. • Explicit references to the information in the case study are made throughout the response.

Section C	Level descriptors
Q5 (c)	
Marks 0–9	
0	<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology.
1–3	<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No reference is made to the information in the case study and/or the extension material within Section C.
4–6	<ul style="list-style-type: none"> • A description or partial analysis/examination with relevant knowledge and/or understanding of relevant issues, concepts and theories. • Some use of appropriate terminology. • Some reference is made to the information in the case study and/or the extension material within Section C, not just to the name of the organization. • At the lower end of the markband responses are mainly theoretical.
7–9	<ul style="list-style-type: none"> • A balanced analysis/examination with accurate, specific, well-detailed knowledge and understanding of relevant issues, concepts and theories. • An analysis/examination that uses appropriate terminology throughout the response. • Explicit references are made to the information in the case study and/or the extension material within Section C.

Section C	Level descriptors
Q5 (d)	
Marks 0–12	
0	<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology.
1–3	<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No evidence of synthesis of information from the case study, the extension material in Section C and, where applicable, from other responses within Section C. Information is merely lifted and copied into the response. • No evidence of judgments and/or conclusions. • No reference is made to the information in the case study and the extension material within Section C.
4–6	<ul style="list-style-type: none"> • A description with some knowledge and/or understanding of relevant issues, concepts and theories. • Some use of appropriate terminology. • No evidence of synthesis of information from the case study, the extension material in Section C and, where applicable, from other responses within Section C. Information is merely lifted and copied into the response. • Evidence of judgments and/or conclusions that are no more than unsubstantiated statements. • Limited reference is made to the information in the case study and the extension material within Section C. • The response is mainly theoretical.
7–9	<ul style="list-style-type: none"> • A response with relevant knowledge and understanding of relevant issues, concepts and theories. • A response that uses appropriate terminology. • At places in the response information from the case study, the extension material in Section C and, where applicable, from other responses within Section C is (synthesised and) integrated to provide a basis for analysis and evaluation. • A response that includes judgments and/or conclusions that have limited support and are underpinned by a balanced analysis. • Explicit references to the information in the case study and the extension material within Section C are made at places in the response.
10–12	<ul style="list-style-type: none"> • A response with accurate, specific, well-detailed knowledge and understanding of relevant issues, concepts and theories. • A response that uses appropriate terminology competently throughout the response. • Information from the case study, the extension material in Section C and, where applicable, from other responses within Section C is proficiently (synthesised and) integrated to provide a basis for analysis and evaluation. • A response that includes judgments and/or conclusions that is well supported and underpinned by a thorough and balanced analysis. • Explicit references to the information in the case study and the extension material within Section C are made throughout the response.

SECTION A

1. (a) *N-Pharma* is now a successful business, but it initially struggled: “poor cash flow meant that the early years were financially challenging” (lines 6–7). Outline *two* problems that Yukio Nakamura’s business start-up may have faced. *[4 marks]*

Problems that Yukio’s business start-up may have faced include:

- a limited budget available for research and development (R&D) (critical in that industry: *line 20*)
- a limited budget available for promotion and advertising
- a limited, erratic or unreliable income
- a lack of customer base
- difficulties in finding external sources of finance (such as investors or bank loans)
- difficulties in planning strategically
- *accept any other relevant problem outlined.*

Mark as 2+2.

N.B. Do not credit the sentence “poor cash flow meant that the early years were financially challenging” alone because this is just a direct quote from the case study (lines 6–7).

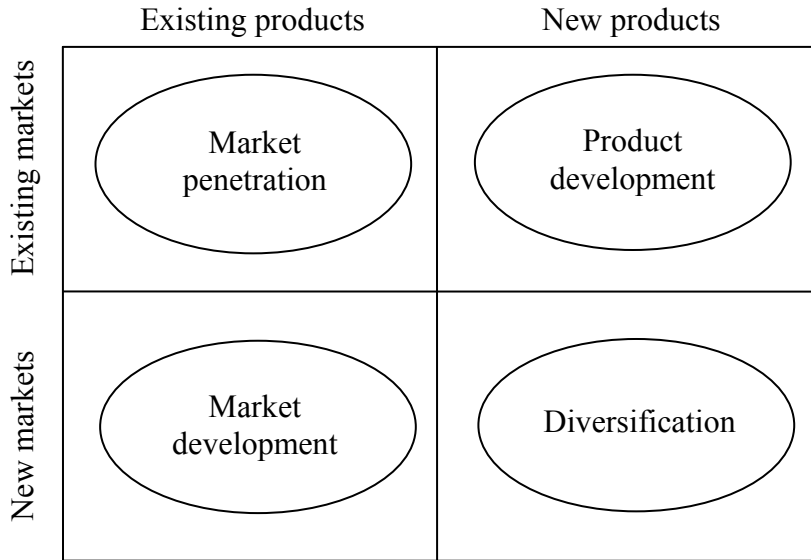
Each problem may be awarded up to *[2 marks]*.

Award *[1 mark]* for a basic outline of each possible problem, conveying partial knowledge and understanding.

Award *[2 marks]* for a clear outline of each possible problem, conveying knowledge and understanding through exemplification or application to the case study.

(b) Construct a fully labelled Ansoff matrix to show *N-Pharma's* possible growth strategies. [4 marks]

The Ansoff matrix is as follows:



N-Pharma already uses or could use the four strategies:

- ongoing product development (*lines 20–27*)
- option 1: market development in Europe (*lines 121–136*)
- option 2: market penetration within China (*lines 137–147*)
- option 3: diversification (*lines 148–153*).

The breakdown of marks is as follows: up to **[2 marks]** for the theory (or Ansoff matrix), **and** up to **[2 marks]** for application to the case study.

Award up to **[2 marks]** for an accurate, fully labelled presentation of the Ansoff matrix – only **[1 mark]** if one term is absent or not correct.

Award an additional **[2 marks]** for the application to *N-Pharma* – only **[1 mark]** if one of the strategies is absent or not correct.

(c) Analyse the value of “social and environmental audits” (line 107) to *N-Pharma*. [7 marks]

It has become common for large companies to carry out social and environmental audits because of an increasing awareness, by all stakeholders, of the social and environmental impacts that large companies have on local communities and on the environment.

In the case of *N-Pharma*, some other factors explain why Tadashi plans to carry out such audits:

- *N-Pharma* operates in an industry which has been criticised for its lack of conscience and social responsibility, being more motivated by money than by healthcare and polluting through chemicals
- *N-Pharma* itself has suffered PR problems and a poor image because of some of its practices
- *N-Pharma* employs over 30 000 staff globally (line 2), so it directly affects thousands of households (any restructuring such as closing one subsidiary would have substantial socio-economic impacts on local communities).

However, such social and environmental audits present some drawbacks too:

- they can be expensive (especially in a period of recession when some staff may fear for their jobs and would not understand why substantial amounts would be spent to employ auditors and consultants rather than on the core business of *N-Pharma*)
- they can be seen as unreliable or biased (as they are commissioned by *N-Pharma* which expects certain results); they may seem little more than a PR/communication exercise
- their results may be difficult to implement.

Accept any other relevant substantiated analysis.

Marks should be allocated according to the markbands on page 3.

2. (a) Define the following terms:

(i) *span of control (line 60)*

[2 marks]

Span of control refers to the number of people under a given manager. The more people under the control of one manager, the wider the span of control.

Candidates are **not** expected to word their definition **exactly** as above.

Award *[1 mark]* for a basic definition that conveys partial knowledge and understanding.

Award *[2 marks]* for a full, clear definition that conveys knowledge and understanding similar to the answer above.

For **only** a relevant: example **or** application to the case study award *[1 mark]*.

(ii) *empowerment (line 64).*

[2 marks]

Empowerment is a HR practice that consists of allowing employees to make autonomous decisions without consulting their line manager. One aim is to help employees develop a sense of ownership over their work and to take responsibility for their results. It also gives managers more time to concentrate on other strategic and/or operational issues.

Candidates are **not** expected to word their definition **exactly** as above.

Award *[1 mark]* for a basic definition that conveys partial knowledge and understanding.

Award *[2 marks]* for a full, clear definition that conveys knowledge and understanding similar to the answer above.

For **only** a relevant: example **or** application to the case study award *[1 mark]*.

- (b) **Comment on the effectiveness of Susan James' leadership style in the Canadian subsidiary of N-Pharma.** [4 marks]

Susan's leadership style can be defined as autocratic as she tends to impose her decisions without listening to employees' requests and desires (she has "dismissed requests for greater empowerment" (line 64), she seems unable to communicate with them (line 67)).

On the one hand, that style may seem ineffective as it is exacerbating the tensions between employees and direction at the Canadian subsidiary (threats of industrial action and strike (line 65)). This is rather the view from the employees who are unhappy with Susan's leadership style.

On the other hand, that style may be effective as strict measures must be implemented in order to redress the productivity problems ("the Canadian subsidiary has recently suffered lower levels of productivity compared to other N-Pharma subsidiaries" (lines 60–61)). Only an autocratic leadership style may result in productivity improvements. This is rather the view from Yukio and the directors at the N-Pharma headquarters, which is why they appointed Susan.

Accept any other relevant answer.

[1 to 2 marks]

For [1 mark] the answer is limited, with little evidence of understanding what an autocratic leadership style implies. For [2 marks] the answer is superficial; it may explain what an autocratic leadership style is, yet without commenting on the appropriateness for the Canadian subsidiary, or it may identify some generic advantages and disadvantages (*i.e.* what makes it effective and what makes it ineffective), yet without proper reference to the case study.

[3 to 4 marks]

For [3 marks] the answer is clear but it may lack balance or precision. For [4 marks] the effectiveness of Susan's autocratic leadership style is presented in a balanced way: the answer explains what it means, and also covers both advantages and disadvantages (*i.e.* what makes it effective and what makes it ineffective).

- (c) Analyse the appropriateness of a cost-based pricing strategy (*line 29*) for *N-Pharma's* drugs. [7 marks]

A cost-based pricing strategy simply means that the prices (of *N-Pharma's* drugs) are partly/mainly based on the costs (to cover all the costs, both fixed and variable, from R&D to distribution). It is the simplest pricing method; it is a common model in the pharmaceutical industry (*line 29*) and in many other industries, such as the construction or retail industry. A “cost-plus” approach is often used:

Price = cost of production + margin of profit

A cost-based pricing strategy can be appropriate for *N-Pharma's* drugs for the following reasons:

- it is relatively easy to calculate
- it can help ensure break-even, recovering all the previous costs, especially the long-term ones of R&D (see *Appendix 1*)
- it can ensure a margin of profit (usually a percentage mark-up)
- it has an ethical advantage: the so-called “just price”.

However, it may also be inappropriate for two key reasons:

- it takes no account of demand: there is no way of determining if potential customers will purchase the drugs at the calculated price, which is a problem as “in periods of economic difficulties, many people prefer to buy generic drugs, which are cheaper” (*lines 53–54*)
- it takes no account of competitors' prices (both branded and generic ones).

Accept any other relevant substantiated analysis.

Marks should be allocated according to the markbands on page 3.

3. (a) **Tadashi Agi has been appointed to the new post of “director of corporate social responsibility” (line 101). Outline two methods of recruitment that could have been used in this appointment.** **[4 marks]**

Recruitment can be:

- internal
- external (which clearly was the case for Tadashi as he was working at the National University of Tsukuba).

The four most common methods of external recruitment are:

- job centres
- job advertisements
- recruitment agency
- personal recommendation
- *accept any other relevant method of recruitment.*

Mark as 2+2.

Award **[1 mark]** for each valid method of recruitment identified up to a maximum of **[2 marks]**, and **[1 mark]** for a correct brief explanation of each of these methods of recruitment up to a maximum of **[2 marks]**.

- (b) Explain how Tadashi Agi could use new technologies within *N-Pharma* to communicate his ethical vision effectively with stakeholders (lines 105–106). [4 marks]**

To communicate his ethical vision with external stakeholders, Tadashi could keep a blog focusing on the (new) ethics of *N-Pharma* or he could commission and publish video clips. For internal stakeholders, an online corporate newsletter may be more appropriate, or regular updates on the company portal; this would help Tadashi “encourage ethical practices in all departments” (lines 104–105) as he could reach all staff and would thereby remind them of the new ethical objectives of *N-Pharma*.

Accept any other relevant explanation.

N.B. Candidates may refer to a range of Web 2.0 tools and may give precise examples – but the question is not just about imagining and describing what Tadashi could do. In order to score above [2 marks], candidates must explain how these technologies can be used (what they would enable Tadashi to do, which objectives he could reach).

[1 to 2 marks]

For [1 mark] the answer is limited, with little evidence of understanding of the use of new technologies to communicate with stakeholders. For [2 marks] the answer is superficial; it may comment on the importance or potential of new information technologies, yet without precise reference to the case study.

[3 to 4 marks]

For [3 marks] the answer is clear but it may lack depth or breadth (for example only writing about blogs). For [4 marks] the answer is clear and detailed, with explanations about the use of new technologies, with explicit references to some examples of technology and stakeholders.

- (c) Tadashi Agi is now writing a “Charter of Ethics”, setting ethical objectives for *N-Pharma* (lines 102–103). Examine the reasons why organizations consider setting ethical objectives. [7 marks]**

Organizations may set ethical objectives because they are increasingly aware of their corporate social responsibility (CSR) or because they want to respond to the public demand for transparency and business ethics. It could also increase employee motivation and reduce negative publicity from pressure groups. However, this is sometimes regarded as a sudden knee-jerk reaction to scandals, e.g. “experiments on animals” (line 90) (the appointment of Tadashi could be cynically interpreted that way) or as a way to pay lip-service to political agendas and to external pressure (from stakeholders such as campaigning organizations). Ultimately, one could argue that the exact motives themselves may not matter (is it a genuine interest in ethics?) as long as the objectives are set and achieved.

Accept any other relevant substantiated examination.

Marks should be allocated according to the markbands on page 3.

SECTION B

4. (a) **Outline the importance of “negotiations and collective bargaining” (line 68) for employees *and* Susan James at the Canadian subsidiary.** *[4 marks]*

Negotiations and collective bargaining are important for employees because they enable them to put pressure on management in order to obtain more delegation and a wider span of control (their two main requests). Individually, each worker has very little leverage, but together, workers can join forces and “show muscle” against management (this is one of the basic principles of trade unionism).

Negotiations and collective bargaining are important for Susan because they can help her prevent the strike action that has been threatened by the union. Industrial action would be detrimental for the Canadian subsidiary (which already has very poor productivity and is losing money). Susan has been appointed by Yukio to improve productivity – a strike would make it very difficult for her to complete her mission.

Mark as 2+2.

Award up to *[2 marks]* for an outline of the importance of negotiations and collective bargaining for employees and up to *[2 marks]* for an outline of the importance of negotiations and collective bargaining for Susan. For full marks the outline should be in context of the case study (the Canadian branch of *N-Pharma*).

- (b) **Explain the importance of quality assurance and quality control (lines 26–27) for *N-Pharma*.** [4 marks]

Candidates may refer to the following points in their answer:

- *N-Pharma* operates in the pharmaceutical industry where drugs must be carefully tested (otherwise it could be dangerous, even life-threatening, for consumers)
- quality assurance and quality control give *N-Pharma* its reputation: any problem with drugs safety could escalate and be very detrimental to the company's image/brand (and even to its very existence)
- quality control is also important (for *N-Pharma* as well as any other company) because it can help reduce costs
- quality control is an old fashioned approach increasingly replaced by quality assurance to ensure that the whole organization focuses on quality production (as opposed to just one quality controller)
- the Kaizen approach (line 104) shows that *N-Pharma* takes quality assurance very seriously.

Accept any other relevant explanation.

Candidates are not asked for a precise number of points. They could write one long answer or cover a range of separate elements.

Award [1 mark] for each correct element of the answer, and [1 mark] for the development/explanation of that element, if appropriate up to a maximum of [4 marks].

- (c) **At the United States (USA) subsidiary of *N-Pharma* “Suzuko found that the financial information was not up-to-date” (lines 114–115). Explain why final accounts are important for the directors of *N-Pharma* and its shareholders.** [4 marks]

Final accounts are important because they describe the trading performance of the business over the accounting period (profit and loss account) as well as the cash inflows and outflows (cash flow statements). The balance sheet also presents the assets and liabilities at the end of the accounting period (a “snapshot”) of the business.

The directors and shareholders of *N-Pharma* need this information in order to know how financially successful *N-Pharma* has been over the last accounting period. To the directors, this can indicate how good management has been (have they reached their targets? Do they need to review their strategies or priorities? How healthy is *N-Pharma* overall?). To the shareholders, this can indicate how much their shares are now worth and how much they will earn in terms of dividends. If the results are disappointing, the directors could decide on a change of strategy and the shareholders could collectively, through the board, vote for some changes in the management/leadership of the company.

[1 to 2 marks]

For **[1 mark]** the answer is limited, with little evidence of knowledge about financial accounts (e.g. they are just named). For **[2 marks]** the answer is superficial; it shows some understanding of financial accounts, but it is not clearly applied to *N-Pharma*.

[3 to 4 marks]

For **[3 marks]** the answer is clear (and applied to the case study) but only refers to the directors or to the shareholders. For **[4 marks]** the importance is clearly explained for both the directors and the shareholders of *N-Pharma*.

- (d) *N-Pharma* subsidiaries have a double role: they “are responsible for both production and distribution of *N-Pharma* drugs in their national markets” (lines 18–19). Discuss the advantages and disadvantages of such a double role.**

[8 marks]

Advantages include:

- there is no need to import drugs produced abroad, which cuts costs and may represent a competitive advantage for *N-Pharma*'s branded drugs
- some consumers may prefer to buy drugs produced in their own country (this could be for political reasons, for example to support national economies, or because they feel safer about the quality control systems in place)
- managerial economies of scale can be achieved (and all the operations may be in one location, which is beneficial for the organizational structure and for the supply chain)
- knowledge of the national markets is important for marketing and distribution (because of the cultural differences between Vietnam, USA and Chile for example)
- *accept any other relevant advantage.*

Disadvantages include:

- economies of scale for the manufacturing of drugs cannot be achieved (the same drugs are produced in all the countries where *N-Pharma* has subsidiaries)
- if one area/department of the subsidiary suffers (as in Canada or Australia), the entire subsidiary may be financially affected
- subsidiaries may end up working in isolation from one another, which is not good for R&D as it may lead to duplication of efforts and waste of time
- the Japanese headquarters at Tsukuba may only become aware of problems when it is too late (as with the USA subsidiary)
- *accept any other relevant disadvantage.*

The candidate's answer should be a balanced substantiated discussion that is supported by evidence from the case study.

Candidates may come to a conclusion/judgment for the top markband that the advantages outweigh the disadvantages or vice versa.

Marks should be allocated according to the markbands on page 4.

SECTION C

5. (a) **Identify *two* secondary sources of market research that the marketing manager could use to understand the Chinese pharmaceutical market.** [2 marks]

There could be a number of possible secondary sources of market research including:

- specialist pharmaceutical/trade magazines, especially those based in China
- general newspapers and magazines, such as the *New York Times*, *The Economist*, *Forbes*, etc.
- the accounts of Chinese pharmaceutical companies
- government reports and statistics
- economics and business web sites
- *accept any other relevant and correct secondary source of market research.*

Award [1 mark] for each relevant and appropriate secondary source of market research identified, up to a maximum of [2 marks].

- (b) **With reference to Lewin’s force field analysis model, explain why “some employees have mixed feelings about relocating and may resist a move” while others may be keen to relocate.** [7 marks]

Lewin’s force field analysis is a graphical tool to guide change and identify priorities for action. It defines driving forces as those forces that initiate change and restraining forces as those that decrease driving forces. Drivers and restraining factors may be internal or external.

Some driving and restraining forces are evident from the case study and additional information. Other forces will be the result of an appreciation of change within the context of the case study.

Driving forces for relocation include:

- Many employees will recognize that the move may have beneficial effects on their experience and future employability.
- The Japanese pharmaceutical industry is contracting and drug prices are falling. The recession, although potentially ending in 2010, means that GDP growth is still relatively low (*Appendix 3*). In October 2008, the value of *N-Pharma* shares dropped 25% before recovering (*lines 116–117*), providing evidence of the potential vulnerability of the company and the need to consider alternative growth and defensive strategies.
- The alternative to relocation may be redundancy.
- Terms and conditions for overseas staff may be an improvement over existing domestic terms and conditions e.g. housing, remuneration.
- Excitement about the possibilities of exploring new countries and cultures.

Resistance to the move is probably because restraining forces are stronger than driving forces.

Restraining forces on relocation include:

- Moving to a new culture, of which staff have little knowledge and understanding.
- Personal links severed – family, friends, school *etc.*
- Fear of the unknown.
- Changes to work patterns, responsibilities, social groups. Formal organization and leadership approaches in *N-Pharma* is likely to mean that staff need more direction from managers and are wary of change that challenges them personally.
- Risk-averse staff.
- Reason for the change is not properly explained or employee feels that it is being enforced.

As a result of these changes, employees may have mixed feelings about relocating and some are likely to resist a move.

Accept any other relevant explanation using Lewin’s force field analysis.

Award **[1 to 2 marks]** for a general or limited response and/or no reference to the case study and/or the extension material or Lewin’s force field analysis.

Award **[3 to 4 marks]** for an explanation of why “some employees have mixed feelings about relocating and may resist a move” while others may be keen to relocate that includes some reference to Lewin’s force field analysis model and the case study and/or the extension material.

Award **[5 to 7 marks]** for a detailed explanation of why “some employees have mixed feelings about relocating and may resist a move” while others may be keen to relocate, that includes a developed reference to Lewin’s force field analysis model and the case study and/or the extension material.

(c) Analyse the European market and the Chinese market using a PEST analysis framework.

[9 marks]

A PEST analysis framework is used to classify the external environment and consider its effects on an organization’s business activities. The European and Chinese markets provide very different external environments.

EUROPE:

Political/Legal

The European market has strict legislation on mergers and takeovers. Drug production is highly regulated by the EU Commission with a long lead time for research and development (*Appendix 1*).

Democratic governments, but some instability and political unrest resulting from recessionary pressures (*Item 3*).

Economic

The recession has significantly affected European markets. Real GDP growth is forecasted to be only 1% in 2010, up slightly from 2009. Inflation is very low (1.7% in 2010) but the forecasted trend is upwards (*Appendix 3*). Pharmaceutical sales growth is forecasted to be positive in 2011 (11%), but the rate of growth has been declining (*Item 1*). Major European competitors to *N-Pharma* are considered to be of a similar price and quality in three cases (*Item 4*). “Unemployment levels will continue to rise until the end of 2011” (*Item 3*).

Social/cultural

Population in the Euro area is fairly stable with relatively small increases predicted (*Appendix 3*).

Technology

Quality standards are high. Increasingly capital intensive to cut costs (*Item 3*). Research and development costs are set to rise further as stricter drug legislation is adopted (*Item 2*).

CHINA:**Political/legal**

Less regulation of generic drugs and the copying of drugs. Manufacture is less controlled and quality controls on drug production are not as strict. Increasingly liberalised domestic markets as the *WTO* pressure China to open its markets to foreign competition (*Item 3*).

Economic

Prices are generally low with price deflation forecasted in 2010. GDP growth slowed in 2009 and is predicted to remain the same in 2010, but forecasted to return to close to double digits in 2011 (*Appendix 3*). Chinese pharmaceutical companies are perceived to be of a lower quality than Japanese and European competitors (*Item 4*). Rural unemployment is increasing as exports to overseas markets fall (*Item 3*).

Social/cultural

A fast growing population (nearly 1.4 billion predicted in 2011 – *Appendix 3*) with increasing life expectancies (*line 139*). The largest market in the world (*line 140*).

Technology

Some parts of the market are labour intensive. Quality standards will improve as investment in new technologies increases (*Item 2*).

It is not expected that candidates will identify all the issues included in the answer above. To achieve the top markband, the candidate is required to use PEST frameworks to analyse both the European and Chinese markets and to have entries in all four categories for both. If the references are limited or highly unbalanced, award a maximum of **[6 marks]**.

Marks should be allocated according to the markbands on page 5.

- (d) Applying your PEST analysis and using information contained in the case study and Items 1 to 4, recommend to the board of directors whether *N-Pharma* should develop the market within Europe through the acquisition of several small pharmaceutical companies (*Option 1(b)*), or penetrate the market within China (*Option 2*). [12 marks]

It should be recognized that, given time constraints, answers are likely to include a **much** narrower range of issues and concepts than identified below. There is no “correct” answer.

Examiners **must** be prepared to award full marks to answers which synthesise and evaluate even if they do not examine all the stimulus materials.

MARKET DEVELOPMENT IN EUROPE

Benefits:

- the pharmaceutical market is well-established
- quality assurance and product standards are high – the *N-Pharma* brand represents quality and will attract European consumers
- European consumers will be able to afford the expensive *N-Pharma* products and there should be a significant market for the existing product portfolio of *N-Pharma*, particularly *Pharmaslim*, *Pharmaflo* and *Pharmatics*
- the ethical approach of *N-Pharma* will allow them to develop a competitive advantage in the European market
- the political system is generally democratic and stable
- patent protection is stronger than that found in emerging markets
- technology and infrastructure is advanced
- staff are likely to be better qualified
- unemployment may lead to lower wages
- Japanese firms are recognized as being of high quality.

Disadvantages:

- legislative restrictions on takeovers and mergers and costly time-consuming research and development processes
- concern about unemployment in domestic markets lowering demand for imports (*Item 3*)
- economic indicators are poor (*Appendix 3*). GDP growth is low and forecasts predict that pharmaceutical sales growth will continue to fall (*Item 1*). Inflation may be a problem in the future (*Appendix 3*)
- the total market in Europe is considerably smaller than China
- competition in European markets will be greater for *N-Pharma* as European firms share similar characteristics and compete for similar markets (*Item 4*)
- lack of knowledge and experience of European markets and consumers
- production and distribution costs will be high
- cultural and social differences.

MARKET PENETRATION WITHIN CHINA

Benefits:

- *N-Pharma* already operates in China – this will help increase its knowledge of the market and customers
- quality assurance and product standards are lower than Europe, which may provide *N-Pharma* with a competitive advantage over local suppliers
- the largest market in the world with high predictions for population growth (*Appendix 3*)
- the economy is set to come out of recession faster than Europe and Japan (GDP growth) and investment advice is positive (*Appendix 3* and *Item 3*)
- technology and infrastructure is developing with increasing investment predicted (*Item 2*)
- cheaper manufacturing and distribution costs
- less regulation may mean products can be brought to the market more quickly.

Disadvantages:

- historic disagreements between the two countries (Japan and China) may restrict *N-Pharma*'s opportunities and operations (*line 146*)
- highly centralized government and state bureaucracy
- weak patent protection (*line 142*) may result in “me-too” products from Chinese competitors, reducing profitability
- staff are likely to be less qualified and experienced
- infrastructure is less developed
- competition from labour intensive and cheaper manufacturers
- it may be difficult to maintain ethical approaches to product development and manufacturing.

The recommendation should balance the benefits and disadvantages. The Chinese market definitely offers the greater growth opportunities. However, its lack of regulation and patent protection may discourage *N-Pharma*.

The profile of *N-Pharma*, its product range and reputation for quality may attract it to develop into Europe. However the regulations restricting mergers, takeovers and joint ventures and the cost and lengthy time of new product development may be a major barrier to entry.

The growth of generic drugs may mean that *N-Pharma* contemplates production in China and export into European and USA markets. It may be suggested that expansion may be possible into both markets.

Accept any other relevant substantiated recommendation.

There is no correct answer – both markets have their opportunities and threats.

Marks should be allocated according to the markbands on pages 6.