



88135011



**BUSINESS AND MANAGEMENT
HIGHER LEVEL
PAPER 1**

Wednesday 20 November 2013 (afternoon)

2 hours 15 minutes

INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- A clean copy of the ***Business and Management case study*** is required for this examination paper.
- Read the case study carefully.
- Section A: answer two questions.
- Section B: answer the compulsory question.
- Section C: answer the compulsory question.
- A calculator is required for this examination paper.
- Clean copies of the ***Business and Management formulae sheet and discount tables*** are required for this examination paper.
- The maximum mark for this examination paper is [80 marks].

SECTION A

Answer **two** questions from this section.

1. (a) Define the following terms:
 - (i) *economies of scale* (line 16) [2 marks]
 - (ii) *empowerment* (line 35). [2 marks]
- (b) With reference to *RDB*, distinguish between internal growth and external growth. [4 marks]
- (c) Analyse the advantages and disadvantages of each new *RDB* factory being “jointly managed by one experienced *RDB* senior manager from Europe and one local manager familiar with the language and culture” (lines 100–101). [7 marks]

2. (a) By the 1970s, Japanese companies had moved to just-in-time production (line 26). Outline **one** advantage and **one** disadvantage of just-in-time production. [4 marks]
- (b) Using data from the additional information on page 3, calculate *RDB*’s:
 - (i) gross profit margin in 1970 **and** 1975. [2 marks]
 - (ii) acid test (quick) ratio in 1970 **and** 1975. [2 marks]
- (c) Interpret the results from your calculations in part (b). [7 marks]

3. (a) Describe **one** consequence of the likely relocation of the factories (lines 96–99):
 - (i) for **one** internal stakeholder of *RDB*. [2 marks]
 - (ii) for **one** external stakeholder of *RDB*. [2 marks]
- (b) Using information in lines 19–21, construct a position map of the ball bearing industry in the 1930s and place *RDB* and its two main competitors on it. [4 marks]
- (c) Analyse the advantages and disadvantages for *RDB* of becoming a public limited company (line 123). [7 marks]

SECTION B

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

- 4. (a) Define the following terms:
 - (i) *benchmarking (line 37)* [2 marks]
 - (ii) *collective bargaining (line 46).* [2 marks]
- (b) With reference to members of the Holstein family, distinguish between scientific and intuitive decision-making processes. [4 marks]
- (c) With reference to *RDB*, explain the differences between strategic analysis and strategic implementation. [4 marks]
- (d) To what extent is Anna Holstein’s “*RDB 2020*” strategic plan consistent with a focus on corporate social responsibility? [8 marks]

Additional information for question 2(b) and 2(c)

Selected financial data from *RDB*’s end of year profit and loss accounts (all figures in €000 000)

	1970	1975
Cost of goods sold	55	92
Expenses	30	43
Sales revenue	118	164

Selected financial data from *RDB*’s end of year balance sheets (all figures in €000 000)

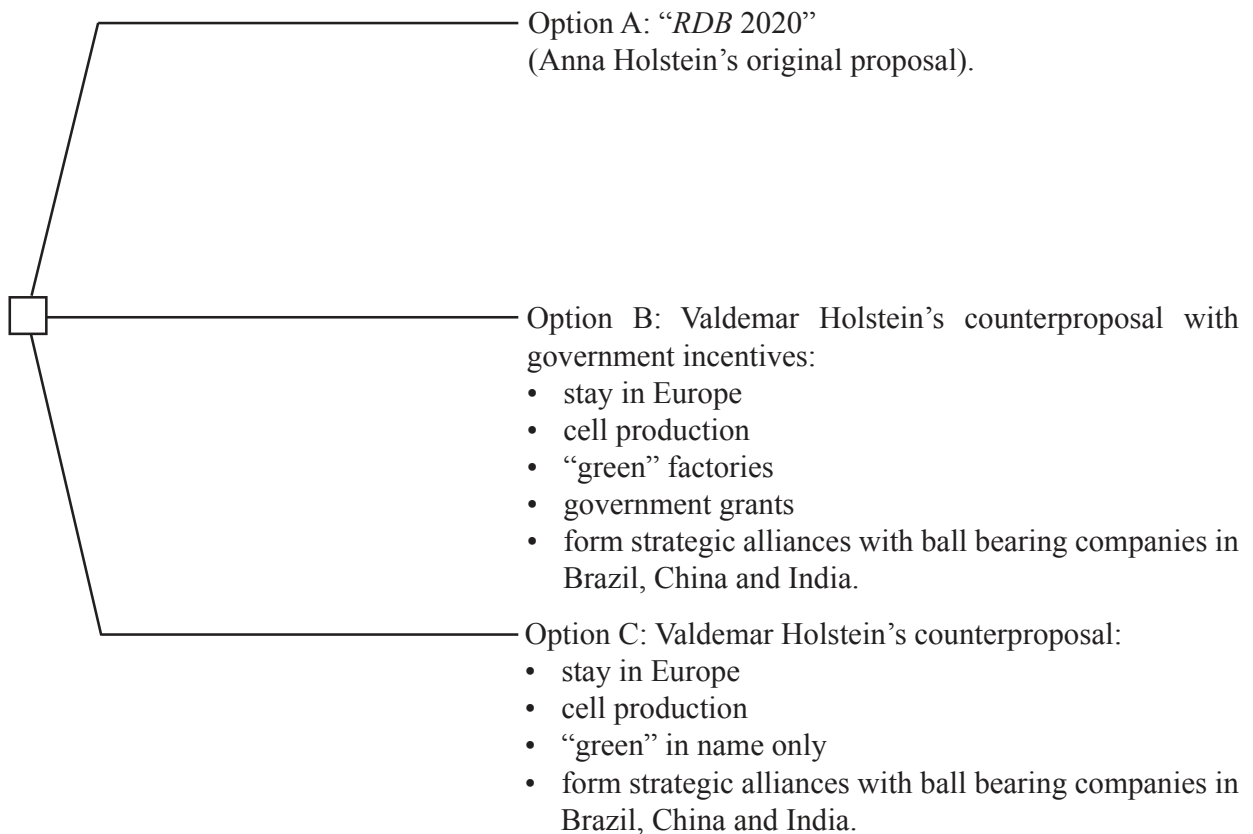
	1970	1975
Cash	25	32
Current liabilities	16	26
Debtors	19	28
Long-term liabilities	30	51
Stock	46	64

SECTION C

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

5. As details about “RDB 2020” spread, several stakeholder groups began to express their concern. One stakeholder group was the workers, who were upset because of the planned closure of their workplaces. Another stakeholder group was the governments of Denmark, Germany and Sweden who wanted RDB to continue manufacturing in northern Europe. The three governments agreed to offer two incentives for RDB to remain.
1. All three governments promised to pay 25% of the budgeted cost of making the RDB factories “green”, if RDB chose to be a real “green” company. The budget for the renovations would have to be approved by the three governments before the work on the factories could begin. With this money from the government, RDB would not have to sell shares. Details of the governments’ assistance and some of the implications were explained to Valdemar Holstein in a memo from Sofia de Carvahlo, RDB’s Chief Financial Officer (*Item 1*).
 2. In addition, the Danish government promised to feature the story of “Green Bearings, an RDB Company” (Valdemar’s rebranding suggestion) as the lead article in the Danish Global Business Directory for 2015. This directory is well respected and is published annually by the Danish government. The directory is mostly purchased by public libraries and embassies. Gloria Woolrich, a marketing consultant, informed Valdemar that this would not be sufficient for RDB to successfully rebrand (*Item 3*).

Valdemar produced a simple decision tree framework to visualize the three strategic options:



(This question continues on the following page)

(Question 5 continued)

- (a) With reference to the renovations to the *RDB* megafactories in Europe, describe a budget. *[2 marks]*

- (b) Using relevant information from Item 2, calculate:
 - (i) the **current** gearing ratio for *RDB*. *[1 mark]*

 - (ii) the forecasted gearing ratio for *RDB* **after** the conversion to “green” production. *[1 mark]*

 - (iii) the **current** return on capital employed (ROCE) for *RDB*. *[1 mark]*

- (c) Explain **one** advantage and **one** disadvantage of decision trees as a decision-making tool. *[4 marks]*

- (d) With reference to *RDB*, examine possible marketing practices required for effective rebranding. *[9 marks]*

- (e) Using information contained in the case study and Items 1 to 3, recommend to the *RDB* Board of Directors the most suitable strategic option (Option A, B or C). *[12 marks]*

Additional information is on the following pages.

Additional Information

Item 1: Memo from *RDB*'s Chief Financial Officer to Valdemar Holstein

From: Sofia de Carvahlo, Chief Financial Officer, *RDB*
To: Valdemar Holstein, Chief Executive Officer, *RDB*
Subject: Implications of the governments' 25 % grant for "green" conversions

Below are key financial data related to the upgrade of the three European factories instead of "*RDB 2020*".

Budgeted cost of converting the factories: €300 000 000.

Financed by grants from the governments of Denmark, Germany and Sweden, which total €75 000 000 and in long-term loans, which total €225 000 000:

	Government grants	Long-term loans
Denmark	€20 000 000	
Germany	€25 000 000	€225 000 000
Sweden	<u>€30 000 000</u>	<u> </u>
Total	€75 000 000	€225 000 000

The €75 000 000 from the three governments will be recorded as retained profit on the balance sheet.

The impact on *RDB* will be significant. Financial data is given in Items 2.1 and 2.2. Of particular note is the impact that the conversion will have on gearing. Even though the governments will provide €75 000 000 for the conversion, *RDB* will still have to borrow significant funds.

Item 2.1: RDB’s balance sheet: current and forecasted after conversion to “green” production (all figures in €000 000)

	Current		Forecasted after conversion to “green” production	
Fixed assets		490		790
Less depreciation	220		220	
Total (net fixed assets)		270		570
Current assets				
Stock	288		288	
Debtors	120		120	
Cash	136		136	
Total assets		814		1114
Current liabilities				
Creditors	76		76	
Short-term borrowing	44		44	
Total		120		120
Net assets		694		994
Share capital		2		2
Loan capital		230		455
Retained profit		462		537
Capital employed		694		994

Item 2.2: Selected items from RDB’s current profit and loss account (all figures in €000 000)

Cost of goods sold	423
Expenses	195
Sales revenue	720

Item 3: Memo from Gloria Woolrich to Valdemar Holstein

From: Gloria Woolrich, Marketing Consultant, *Maia Marketing Associates*

To: Valdemar Holstein, Chief Executive Officer, *RDB*

Subject: Proposed article in the 2015 edition and issues related to rebranding

The proposed article in the 2015 edition of the Danish Global Business Directory will be about 10 000 words and will narrate the history and “green” practices of “*Green Bearings, an RDB Company*”. A focus will be on why *Green Bearings* is a company of which Denmark is proud. As you know, the publication format is printed (2000 copies). Generally the authors of these articles do not say much about the nature of a company’s product or its competitive position, as that would make it appear as though the publication and the Danish government were promoting particular businesses over other Danish businesses. Danish Global Business Directory wants to be neutral.

I do not think that the article will be adequate for *RDB* to successfully rebrand as “*Green Bearings, an RDB Company*”...