



MARKSCHEME

November 2013

BUSINESS AND MANAGEMENT

Higher Level

Paper 1

22 pages

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

Section A			Level descriptors
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 has balanced analysis and demonstrates 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 (d)	
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 (e)	
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) Define the following terms:

(i) *economies of scale (line 16)*

[2 marks]

Economies of scale refer to the decrease in cost per unit produced, as the total scale of the production facility increases.

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, with reference to **both** decrease in cost per unit **and** increase in scale of production.

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

(ii) *empowerment (line 35)*

[2 marks]

Empowerment is a form of non-financial reward and a motivational technique; it means that some power is given to employees so they can make some of their own decisions regarding their working life (for instance they may have control over how to use their time and decide which tasks could be done from home).

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 with reference to decision making.

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

- (b) With reference to *RDB*, distinguish between internal growth and external growth. **[4 marks]**

Internal growth (also called organic growth) refers to the growth of a business (*RDB* in this case) through increasing sales (for example, developing first-mover advantage in the market for “technologically advanced, energy-efficient ball bearings” (lines 95–96)) or developing marketing activities (hence Anna’s idea of using “engineers-turned-salesmen” (line 116)). Internal growth is also possible by cutting costs and selling goods at a lower price, thereby increasing market share, though there is no reference to this in the case study.

External growth takes place through external solutions, such as joint ventures and mergers and acquisitions. Valdemar suggested strategic alliances with companies based in Brazil, China and India, which would be a form of external growth (it would enable *RDB* to operate or at least sell directly in those countries, without having to develop its own marketing activities there).

N.B. If incorrect understanding/definition of internal/external growth **but** correct application award a maximum of **[2 marks]**.

Mark as 2 + 2.

Award **[1 mark]** for a basic definition of each type of growth. Award another **[1 mark]** for an application to *RDB* up to a maximum of **[2 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]

Advantages include the following:

- the factories will benefit from having two managers who combine forces (in terms of synergy, when adding the experience of the European *RDB* senior manager and the field knowledge of the newly appointed local manager)
- having two complementary managers avoids the problem of *RDB* headquarters having to decide who to appoint as a sole manager: on their own, expats from northern Europe might struggle to be accepted and respected; on their own, newly appointed local managers might not appreciate the *RDB* culture of high-quality ball bearings
- for *RDB* as a whole, this means a more diverse workforce, which is in line with Anna’s ideas about reflecting customers’ profiles; diversity in the workforce is often seen as a vector of creativity; it is also more politically correct and it seems that Anna has that agenda too
- communication between head office and managers, and managers and employees
- *accept any other relevant advantage.*

Disadvantages include the following:

- the two managers, being from different cultural backgrounds, could be prejudiced against each other, or could have different values and attitudes, which might create tension or conflict between them and hinder communication between them
- the two managers may have different management/leadership styles, which could be confusing for the employees, for example if one is more autocratic and the other more democratic
- the two managers may have different ideas about quality control, operations or marketing, which could slow the decision-making process in the factories
- *accept any other relevant disadvantage.*

Accept any other relevant analysis.

Candidates are **not** expected to refer to all of the above points for top marks, but their analysis must be balanced in order to reach the highest level of the markband.

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

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]**

Advantages of just-in-time production stock control include:

- it improves the working capital cycle (as the companies only produce the ball bearings that have been ordered: they do not keep stock, so there is no capital “blocked” in the form of stock)
- it reduces storage costs (unlike with a just-in-case approach)
- it reduces the chances of holding unsellable stock (if business customers change specification or requirements)
- *accept any other relevant advantage.*

Disadvantages of just-in-time production stock control include:

- unlike with a just-in-case approach, sudden large orders cannot be met (as there is no stock), so customers could then turn to competitors
- if the suppliers also operate on a just-in-time basis, it can create some delays
- *accept any other relevant disadvantage.*

Accept any other relevant answer.

N.B. Accept answers that only refer to just-in-time stock control.

Mark as 2 + 2.

Award **[1 mark]** for each relevant advantage/disadvantage identified, award an additional **[1 mark]** for the development of that advantage/disadvantage up to a maximum of **[2 marks]**.

- (b) **Using data from the additional information on page 3, calculate RDB's:**

- (i) **gross profit margin in 1970 and 1975.** **[2 marks]**

	1970	1975
Gross profit margin	$\frac{(118 - 55)}{118} \times 100$ = 53.39% (to 2 d.p.)	$\frac{(164 - 92)}{164} \times 100$ = 43.90% (to 2 d.p.)

Award **[1 mark]** for each correct calculation up to a maximum of **[2 marks]** (no working required). Allow appropriate rounding.

- (ii) **acid test (quick) ratio in 1970 and 1975.** **[2 marks]**

	1970	1975
Acid test (quick) ratio	$\frac{(19 + 25 + 46 - 46)}{16}$ = 2.75 times	$\frac{(28 + 32 + 64 - 64)}{26}$ = 2.31 times (to 2 d.p.)

Award **[1 mark]** for each correct calculation award up to a maximum of **[2 marks]** (no working required). Allow appropriate rounding.

(c) Interpret the results from your calculations in part (b).

[7 marks]

The gross profit margin of *RDB* declined significantly between 1970 and 1975, falling from 53.39% to 43.90%. Profitability from the manufacturing process declined. In the case study, mention is made of intensifying competition from Japanese manufacturers. In all likelihood, as Japanese firms became more fierce competitors, companies such as *RDB* had to lower the sales prices of its products. With lower sales prices, the gross profit margin contracted.

With the decline in profitability but with expanding operations, *RDB*'s liquidity weakened – though it was still strong. The acid test ratio fell from 2.75 times in 1970 to 2.31 times in 1975. The expanded operations meant that *RDB* had to commit greater funds to support its growth thus decreasing liquidity.

It is arguable that *RDB*'s acid test ratio was too high (that it had too much money tied up in low-yielding assets and that the decrease in the acid test ratio was actually a positive development).

In isolation, the decline in gross profit margin is a negative development, the slight deterioration in liquidity less so. However, according to the case study, *RDB* has had a long-term trend in reduced profitability and a deteriorating balance sheet. As part of a long-term trend, these developments were worrisome.

Accept any other relevant interpretation.

Apply Own Figure Rule (OFR) from calculations made in part (b).

Marks should be allocated according to the markbands on page 3. The balance required for higher marks means that both profitability and liquidity ratios need to be interpreted.

3. (a) Describe *one* consequence of the likely relocation of the factories (lines 96–99):

(i) for *one* internal stakeholder of *RDB*.

[2 marks]

An example of one internal stakeholder that would be affected by the relocation is the **workforce** in the Swedish megafactory: as *RDB* would be closing their workplace, many would be laid off. Some might be offered jobs in the new factories (for example, some of the senior managers) but the majority of workers' jobs would be made redundant and the workers themselves would become unemployed.

Accept any other relevant internal stakeholder with a description.

Award [1 mark] for a basic description of the consequence; award an additional [1 mark] for the development of that point, up to a maximum of [2 marks]. Award [0 marks] if the stakeholder is not internal or is not precisely identified.

(ii) for *one* external stakeholder of *RDB*.

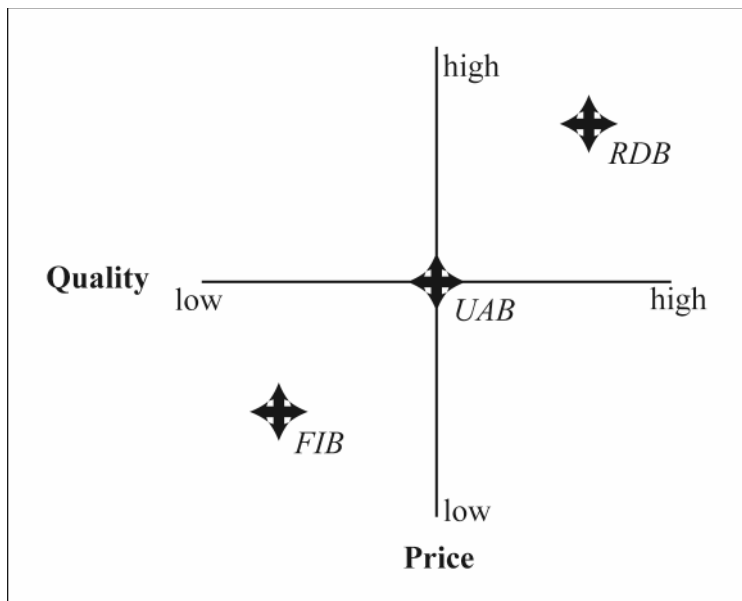
[2 marks]

An example of one external stakeholder that would be affected by the relocation is the **Swedish government**: firstly, they would lose all the business rates (taxes) paid by *RDB*; secondly, they would see an increase in unemployment in the towns that were dependent on *RDB* (for direct and indirect jobs); thirdly, as “the Swedish factory was so large that railroad lines had been installed in order to deliver supplies and to transport finished products” (lines 139–140), the Swedish government might try to put pressure on *RDB* to keep the factory there.

Accept any other relevant external stakeholder with a description.

Award [1 mark] for a basic description of the consequence; award an additional [1 mark] for the development of that point, up to a maximum of [2 marks]. Award [0 marks] if the stakeholder is not external or is not precisely identified.

- (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]



Award [1 mark] for the overall layout of the position map with both axes correctly labelled (quality and price) and high/low clearly indicated. *N.B.* it does not matter which axis is horizontal/vertical.

Award [1 mark] for correct positioning of *RDB* in the quadrant “high quality and high price”.

Award [1 mark] for correct positioning of *UAB* at the centre of the model (to show “medium quality and medium price”).

Award [1 mark] for correct positioning of *FIB* in the quadrant “low quality and low price”.

- (c) Analyse the advantages and disadvantages for *RDB* of becoming a public limited company (line 123). [7 marks]

Becoming a public limited company means that *RDB* shares would be traded on the stock market. By selling shares to the general public, they would be able to rapidly raise more funds, hence Anna’s keenness, as that extra capital is essential to implement her “*RDB 2020*” vision. Supporting further expansion by changing status from a private to a public limited company is a common method to raise capital – however there are several disadvantages. *RDB*’s audited accounts would have to be released to the public, but more importantly *RDB* would become vulnerable to takeover bids and the Holstein family would also lose some control and ownership (hence Valdemar’s resistance). Moreover, the value of *RDB* shares may also be very dependent upon stock exchange fluctuations.

Accept any other relevant analysis.

Candidates are **not** expected to cover all the above-mentioned points.

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

SECTION B

4. (a) Define the following terms:

(i) *benchmarking (line 37)*

[2 marks]

Benchmarking is about comparing a business (or a business unit or some products/services) to competitors, typically to the ones that can be described as providing “best practice”. A set of standards (called “benchmarks”) is then produced and comparisons are made (ideally with the aim of not only meeting the benchmarks, but exceeding them).

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 stimulus award ***[1 mark]***.

(ii) *collective bargaining (line 46)*

[2 marks]

Collective bargaining can be defined as “the process by which management and employees have representatives (*eg* trade unions) who negotiate on the terms and conditions of employment” (adapted from page 391, Clark, P. *et al.*, 2009, *Business and Management Course Companion*, Glasgow, U.K., Oxford University Press).

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 stimulus award ***[1 mark]***.

- (b) With reference to members of the Holstein family, distinguish between scientific and intuitive decision-making processes. **[4 marks]**

A scientific decision-making process is rational, linear and based on evidence and logic. Anna definitely has that type of approach: she studied the external environment before preparing her strategic plan “*RDB 2020*”. Her decisions are based on empirical evidence (*eg* about manufacturing and the ball bearing industry) and reasoning (*eg* about the need to relocate production to factories in Brazil, China and India). At times, Valdemar also displays signs of scientific decision-making. For example, he consults economists and other specialists, though it is less clear in his case.

An intuitive decision-making process relies more on feelings, spontaneity, insight and perception; it can be described as irrational. Henrik Holstein, the founder of *RDB*, is presented as a visionary: in 1915, he could not know that manufacturing ball bearings would be so important throughout the 20th century – and he could not imagine how successful his Danish company would become. Henrik’s business intuitive proved right. His son Valdemar is worried about Anna’s plans. He has a bad feeling and maybe he will be right: is she taking *RDB* in a wrong direction?

Accept any other relevant response.

Award **[1 mark]** for each definition (scientific decision-making, intuitive decision-making); award an additional **[1 mark]** for the application to the *RDB* case study (Anna, Valdemar, Henrik), up to a maximum of **[4 marks]**.

N.B. If the response is simplistic such as “Anna = scientific, Valdemar = intuitive”, award a maximum of **[3 marks]**.

- (c) **With reference to *RDB*, explain differences between strategic analysis and strategic implementation.** **[4 marks]**

Strategic analysis is about identifying where the business is; this involves a close examination of both the internal and external environment. PEST and SWOT models are commonly used for that purpose. Anna has carried out this background analysis in order to articulate her strategic vision for *RDB*: “to make the world’s most technologically advanced, energy-efficient ball bearings in small “green” factories located near its customers” (*lines 95–96*). This is the first part of the strategic process.

Strategic implementation occurs later in the strategic process: having chosen the future direction of the business, implementation is about deciding how to put the strategy into operation; this phase has a more practical dimension. It involves, amongst others, marketing decisions (for example about R&D) and HR decisions (for example about the new workforce in the new factories) as well as change management (as the changes for *RDB* will be colossal, both culturally and operationally).

Accept any other relevant explanation.

Award **[1 mark]** for a basic answer showing some limited knowledge of strategic analysis and/or strategic implementation (for example an answer that may lack clarity or shows some confusion).

Award **[2 marks]** for an answer which shows some knowledge and understanding of both strategic analysis and strategic implementation (for example by providing definitions yet without application).

Award **[3 marks]** for an answer which clearly explains the differences between strategic analysis and strategic implementation yet with limited application to *RDB*.

Award **[4 marks]** for an answer which clearly explains the differences between strategic analysis and strategic implementation with precise application to *RDB*.

- (d) **To what extent is Anna Holstein’s “RDB 2020” strategic plan consistent with a focus on corporate social responsibility?** **[8 marks]**

Anna’s “RDB 2020” strategic plan is consistent with a focus on corporate social responsibility (CSR) because one of the cornerstones of “RDB 2020” is “green” engineering (the topic that Anna studied at university); it is about energy efficiency and environmental friendliness. When she started working at RDB, implementing “green” approaches to manufacturing was her personal mission – and with “RDB 2020” she is turning this personal mission into a corporate strategy. Sustainable development is one of the values underpinning CSR and business ethics in general. She also wishes to employ workers in new factories in Brazil, China and India, which will be a way for RDB (as a successful Western European company) to contribute to economic development in other countries.

It is possible, however, to argue that Anna’s plan is not consistent with a focus on CSR when one considers some of the direct implications of “RDB 2020”, especially about the planned redundancy of thousands of European workers’ jobs. This goes further than just relocating, outsourcing and offshoring: as stressed by Valdemar, RDB has had almost a century of strong links with the local communities where it has been based, contributing to the development of “company towns”, working in partnerships with local and even national governments and other stakeholders. Valdemar’s references to a “social contract” and to “a moral obligation to provide jobs in Denmark” (*line 130*) are powerful counterparts to Anna’s own ethical views about sustainable development and CSR.

Accept any other relevant response.

It does not matter which conclusion candidates reach at the end of their discussion (*ie* whether they conclude that the plan is ethical or not), however for top marks there must be a final conclusion.

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

SECTION C

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

In the context of the renovations to the *RDB* megafactories, a budget refers to the estimated plan of spending to renovate the factories. The budget would be itemized, probably by factory and, for each factory, by expected costs (various demolition costs, various components of the cost of construction, environmental clean-up costs, *etc*).

Award **[1 mark]** for a definition of a budget. Award an additional **[1 mark]** for a description with reference to renovations.

- (b) **Using relevant information from Item 2, calculate:**

- (i) **the *current* gearing ratio for *RDB*.** **[1 mark]**

Figures in 000 000s

$$\frac{€230}{€694} \times 100 = 33.14\% \text{ (to 2 d.p.)}$$

Award **[1 mark]** for the correct answer (no working required). Allow appropriate rounding.

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

Figures in 000 000s

$$\frac{€455}{€994} \times 100 = 45.77\% \text{ (to 2 d.p.)}$$

Award **[1 mark]** for the correct answer (no working required). Allow appropriate rounding.

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

Figures in 000 000s

$$\frac{€102}{€694} \times 100 = 14.70\% \text{ (to 2 d.p.)}$$

Award **[1 mark]** for the correct answer (no working required). Allow appropriate rounding.

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

Advantages of decision trees include:

- they quantify possible outcomes, giving a commensurate basis for comparison
- construction of the decision tree can stimulate additional ideas for alternate routes to pursue not previously thought of
- decision trees also involve estimation and comparison of risk factors.

Disadvantages of decision trees include:

- they are based upon expected outcomes – forecasts – and actual outcomes can differ significantly
- factors other than quantitative ones often play a role in decisions.

Accept any other relevant advantage and disadvantage with an explanation.

Mark as 2 + 2.

Award **[1 mark]** for identifying a relevant advantage/disadvantage and **[1 mark]** for an explanation, up to a maximum of **[2 marks]**.

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

“Marketing practices” can be loosely interpreted, *eg* marketing mix, marketing strategy, plans, *etc.* Rebranding will require a complete adjustment to the marketing strategy as it focuses on the “green” nature of *RDB*. The strategy will need to address the issue of targeting new customers as well as familiarising existing customers with the new brand and changes to the product and maintaining customer loyalty.

Marketing practices for effective rebranding include realignment of all the elements of the market mix to ensure that *RDB* has a focus consistent with its new mission (candidates could elaborate on this with respect to any or all of the 7Ps). Clearly relevant in the marketing strategy will be product, pricing, and promotion, with most of the emphasis on promotion, as *RDB* will have to promote the changes that it is making.

In terms of promotion, *RDB* would be wise to consider standard strategies for developing a constellation of signifiers that point to a brand and build brand identity and awareness, such elements as a word or phrase that catches customers’ attention, perhaps a character (such as the *Michelin Man*) with whom customers can identify, a consistent theme, logo, or phrase, and a new consistent look to promotional literature. *RDB* must also use various means of promotion in an awareness program to educate customers about the new *RDB*. This brand awareness (or rebrand) campaign would include:

1. Direct contact by senior sales staff to major and/or long-standing customers (since *RDB* is a B2B business) to make them aware of the new brand name and symbols and to ensure that *RDB* will maintain its commitment to quality.
2. Extensive reliance on below the line promotion, including direct mailings to all customers and known potential customers and attendance at exhibitions and trade fairs.
3. Above the line promotion in appropriate trade journals, including the traditional trade journals it advertises in and the design magazines/journals that *RDB* wants to become known in.

Accept any other relevant examination.

N.B. Balance means focussing on **rebranding** in relation to marketing.

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

- (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]*

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 synthesize and evaluate even if they do not examine all the stimulus materials.

It is to be expected that the answer will include relevant information from the case study, extension material and Items 1 to 3 and employ a range of business concepts, tools and terminology.

Candidates are free to recommend any of the options. The marks awarded depend upon the strength of the candidate’s reasoning and should be based upon the markbands on page 6.

Option A represents the boldest option for *RDB*; it is probably the riskiest in the short term, but the soundest in the long term. It would mean significant restructuring of the company, laying off many workers, and trying to maintain continuity of operations while, at the same time, managing considerable change. Much of *RDB*’s corporate identity would be lost. Financially, all of the expenses of the transition would have to be absorbed by *RDB*, and it would have the challenge of selling two of its three large megafactories. On the other hand, Option A would represent the most forward thinking of the three options. *RDB* would become a “green” company, its workforce would become more international, and the small factories around the world would allow for greater flexibility and responsiveness. The new corporate culture could be built around a new form of corporate social responsibility (CSR): environmental friendliness and a global workforce rather than the “social contract” sense of responsibility it had (employment for life).

Option B represents what is in many ways a safer option than A, but it is still has many issues. The positives include the fact that *RDB* would not have to lay off employees, while at the same time adopting a new mantle of CSR based upon environmental friendliness. The financial incentives offered by the government would certainly help in making the transition, but *RDB* would still see a significant increase in its gearing and leverage. The cell production would probably allow the company to be more flexible in terms of production, but the sites of production would continue to be far away from many of its customers and where much of global industrial production is expected to be in the decades ahead. Strategic alliances with ball bearing companies in Brazil, China, and India will help in this regard, but forming strategic alliances is a lesser commitment to these economically growing parts of the world than under Anna’s “*RDB* 2020” vision. The wage and salary structure of northern Europe would continue to be an issue; wages, salaries and benefits for workers in these countries are among the highest in the world. So, while this option may be “the best of both worlds” (employment-for-life and an environmentally forward-looking company), it may not reverse the long-term erosion in margins that has been plaguing *RDB*. Gloria Woolrich (*Item 3*) is not convinced that the offer of promotion in *Danish Global Business Directory* will have much value, and there may be many unanticipated costs associated with rebranding.

Option C is the least risky of the three options in the short term, but it may be the riskiest in the long term. Like with Option B, cell production would probably allow the company to be more flexible in terms of production, but the sites of production would continue to be far away from many of its customers and where much of global industrial production is expected to be in the decades ahead. Strategic alliances with ball bearing companies in Brazil, China and India will help in this regard, but forming strategic alliances is a lesser commitment to these economically growing parts of the world than under Anna’s “*RDB 2020*” vision. Really, under this option, the company is going to do what it always has with the exception of cell production and the new marketing spin (“green” in name only). Though this will protect the balance sheet in the short term (and *RDB* has a strong balance sheet), it will do little to correct deep long-term issues that have slowly been weakening the company. Further, were *RDB* to start asserting it as a “green” company with little real basis for that assertion, if discovered by the press there could be a negative reaction in the marketplace and weaken *RDB*’s credibility.

Accept any other relevant recommendation.

N.B. All three options have advantages and disadvantages. Candidates are expected to have a clear conclusion (and a recommendation on which option to pursue) – it could be any of the three, as long as the answer is justified.

If the candidate refers to only one option, award a maximum of **[7 marks]**.

If the candidate refers to only financial considerations or only non-financial considerations, award a maximum of **[7 marks]**.

To achieve the top markband, candidates must formulate a final recommendation.

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