N22/3/BUSMT/HP1/ENG/TZ0/XX

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BUSINESS MANAGEMENT

HIGHER LEVEL

PAPER 1

Practice examination 2022 – **ELE PLC**

1 hour 15 minutes

INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- A clean copy of the **IB Business Management case study – ELE PLC** is required for this examination paper.
- Read the case study carefully.
- A clean copy of the **IB Business Management formulae sheet** is required for this examination paper.
- Section A: answer two questions.
- Section B: answer question 4.
- A calculator is required for this examination paper.
- The maximum mark for this examination paper is **[40 marks]**.

SECTION A

Answer **two** questions from this section.

QUESTION ONE

a. Explain why productivity (line 28) is important in ELE's Zeat division. **[4 marks]**

b. With reference to ELE, examine using retained profits (line 53) as a source of finance to grow a business. **[6 marks]**

QUESTION TWO

a. Outline **one** advantage and **one** disadvantage to using internal recruitment to fill vacancies at ELE's rental car division. **[4 marks]**

b. With reference to ELE, explain **two** advantages and **two** disadvantages of using takeovers (line 15) as a strategy for growth. **[6 marks]**

QUESTION THREE

a. With reference to ELE, outline **one** internal stakeholder group and **one** external stakeholder group. **[4 marks]**

b. With reference to ELE's Zeat division, explain reasons why the change in production methods from batch production to cellular manufacturing (lines 33 and 34) made the division more profitable. **[6 marks]**

SECTION B

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

QUESTION FOUR

In May 2022, ELE's board of directors requested that the Finance Department supply forecasted financial information for the car rental division which would help them analyse the various investment projects that the company needs to consider over the next ten years.

The Finance Department is confident forecasted costs are accurate given the quality of the research and available data, but less certain about the forecasted revenues as revenues will depend on:

1. ELE's ability to attract new customers and shift existing customers in the EU across to the new brand In3T.
2. ELE's ability to penetrate the Indian car rental market. Further, sales revenues in India would fluctuate as exchange rates have been volatile. For example, in 1995 one euro purchased 42 Indian rupees, whereas in 2021 one euro purchased 89 rupees.

The Operations Management Department were asked to produce a report on operations management practices and strategies for economic, social (in terms of human resources) and ecological sustainability for ELE's current and future projects.

A summary of that financial and non-financial information is presented below.

Zeat Division (line 95): Expected to be profitable for a maximum of 20 years, subject to the external environment. A case can be made for ecological sustainability because as long as the world produces electric engine cars, these cars will still need air in their tyres. However, in the long-term gas stations are likely to become a thing of the past as more car owners recharge their electric batteries at home and work.

Develop new Indian market (line 102): €2.5 billion to establish operations across India, including the purchase of a new fleet of rental cars. There is much growth potential in India, however, India does not have sufficient infrastructure for electric vehicles yet, especially outside of its megacities such as New Delhi – population 27 million. Most of its rental fleet would need to be petrol engines or hybrid technology. However, the government has set a target to have at least 30% of new vehicles being electric vehicles by 2030. Thus, a new Indian rental car division would be able to shift to electric vehicles over time, aligning with the company's green objectives. This division would employ many people locally but also force many local car rental companies to close.

New brand In3T (line 118): €2 billion required to build the technology, market the new brand and, most expensively, purchase a new electric vehicle fleet for its European operations. This option is expected to be increasingly profitable across time as demand for green energy products continues to grow and European carbon emissions become increasingly more regulated. This option aligns well with environmental goals at ELE but there is a substantial social cost as many employees would be made redundant.

The board of directors believes basing its rental fleet on electric cars should be a strategic priority for the company but is concerned about the high cost of achieving **economies of scale**, problems associated with obtaining finance, and future technologies that may make rental cars obsolete. However, there are two main advantages ELE would have with both of its rental car strategic options:

- Barriers to entry are high in the car rental industry with the cost of financing a large fleet of vehicles being especially prohibitive. Where barriers to entry are high, competition is low and profit margins high.
- There would be a good degree of **product differentiation** with either option; a recognised and global car rental brand in the case of India; in the case of In3T, a rental car brand with cutting edge technology that has truly green credentials.

a. Outline why **economies of scale** are important in the rental car market. **[2 marks]**

b. Outline why high **product differentiation** increases the pricing power of rental car companies. **[2 marks]**

Summarised financial information for developing a new Indian car rental division and launching the new In3T European brand are as follows.

Table 1: Financial information

	Europe	India
Cost of investment (€ million)	2,000	2,500
Expected life expectancy	30 years	20 years
Forecast annual average profitability (€ million)	180	240

c. Using the information in Table 1 above to:

   i. Calculate the payback period for both projects **and** comment on your results. **[3 marks]**

   ii. Calculate the average rate of return for both locations **and** comment on your result. **[3 marks]**

d. Using information from the case study, additional information above **and** your results from part (c), discuss whether ELE PLC should expand into India. **[10 marks]**