

Business and Management HL

P1

2010 May

School Level 12th IB Diploma

Programme

Board Exam

International Baccalaureate (IB
Board)

Solved

shaalaa.com



**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



MARKSCHEME

May 2010

BUSINESS AND MANAGEMENT

Higher Level

Paper 1

24 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 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 (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.

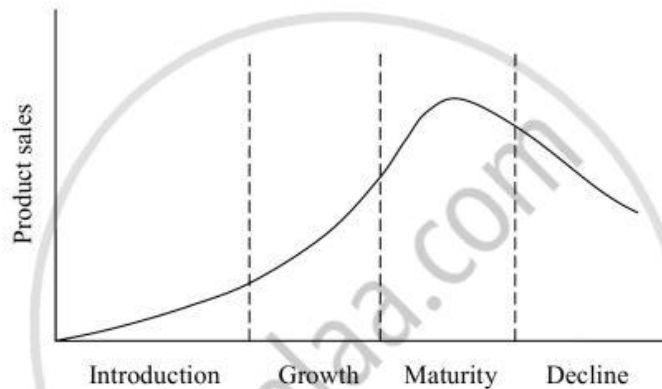
SECTION A

1. (a) Define the following terms:

(i) *product life cycle (line 32)*

[2 marks]

Product life cycle refers to the fact that any new product, once commercialized (*i.e.* first launched on the market) progresses through a sequence of stages conventionally called “introduction”, “growth”, “maturity” and “decline”. The product life cycle (often abbreviated as PLC) is mainly associated with changes in marketing (as the marketing strategy needs to adapt according to the stage).



Candidates may include a figure showing a product life cycle (with the named stages); this can enable them to score *[2 marks]* but this is not required.

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. Key concept: sequential stages.

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

(ii) **brand loyalty (line 51).**

[2 marks]

Brand loyalty refers to consumers' commitment to purchase products from a particular brand (literally, it means "fidelity", "allegiance", "faithfulness" to one brand and not to its competitors). The central idea is that of repurchasing. Brand loyalty is often regarded as the ultimate goal of marketing.

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. Key concept: repurchasing.

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

- (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]**

Above the line (ATL) promotion refers to advertising a brand (*N-Pharma*, in this case) through conventional forms of mass media such as television, radio and newspaper. To launch its new anti-aging drug *Pharmatics*, *N-Pharma* may have led a national campaign on television, with famous actresses praising the beneficial effects of *Pharmatics* to keep their skin smooth and youthful.

Below the line (BTL) promotion refers to advertising through short-term, focused methods such as direct mail, public relations and sales promotions; for *N-Pharma*, it could include discount coupons, sponsorship of health-related events, point-of-sale displays (e.g. in drug stores) or giving away samples of *Pharmatics* through doctors. (Most of the pharmaceutical companies actually do BTL promotion through doctors, as for a patient, personal advice from a doctor may hold more value than commercial advertisements.)

NB: “Direct to Consumer” (DTC) advertising is only permitted in some countries. Candidates should not be penalized if they do not discuss TV adverts.

Accept any other relevant answer.

[1 mark]

The answer shows some confused or limited understanding of the difference between ATL and BTL promotion.

[2 marks]

The two concepts are understood, but they are not clearly defined or not applied to the case study.

[3 marks]

The two types of promotion are presented and the distinction is clear; one type of promotion (ATL **or** BTL) is well illustrated but the other is not.

[4 marks]

The two types of promotion are well presented and the distinction is clear; ATL **and** BTL are defined as two advertising strategies and the distinction between them is clearly illustrated.

(c) **Analyse the role of branding in the global market for *N-Pharma*'s drugs.** [7 marks]

The global market for pharmaceutical products keeps expanding, as demand keeps growing, especially for drugs to treat cardiovascular diseases (*line 39*) and obesity (*line 41*). This is the case in both developed and developing countries. It is a very competitive environment (*line 42*) with, firstly, competition amongst branded drugs (such as *N-Pharma* and its portfolio: *Pharmaflo*, *Pharmaslim etc.*) and secondly, competition between branded drugs and generic drugs (*line 54*). Branding enables loyalty which is important as most people tend to keep buying the same pharmaceutical drugs, once they know it works for them.

Within the Pacific Rim, *N-Pharma* is already in a good position as it has developed strong brand loyalty (*line 51*) – but “the demand for some of *N-Pharma*'s products is income elastic” (*lines 54–55*) so the directors do not take their marketing advantage for granted. Family branding plays a key role in attracting customers to new drugs: *N-Pharma*'s logo is well known within the Pacific Rim (*lines 51–52*) which makes it more cost-effective for *N-Pharma* to advertise its drugs, as any advert indirectly benefits the whole group.

In other parts of the world, such as Europe (*line 121*), *N-Pharma* does not commercialize its products yet; as in Europe “customers have strong brand loyalty towards products they already know” (*line 124*), *N-Pharma* would need to invest a lot in communication, promotion and advertising.

This shows that branding is advantageous for firms and products that are well known and well-established, but it makes it even more difficult to enter a new market, even for brands that are successful elsewhere in the world; put another way, branding is a barrier to entry.

Accept any other relevant analysis.

To achieve the top markband, candidates are expected to refer to parts of the world.

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

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]

The key aspects of this form of ownership include the following points:

- *N-Pharma* sells its shares to the general public, so anyone can be an investor and have part ownership of the company
- *N-Pharma* has access to capital markets and is thereby able to raise more funds (which was not so easy when it was a private company prior to 1980)
- *N-Pharma's* accounts must be audited and released to the public (they are public information)
- *N-Pharma* may be vulnerable to takeover bids (line 117); its value may also be very dependent upon stock exchange fluctuations
- any other relevant aspect.

Award [1 mark] for each correct key aspect identified, and [1 mark] for the development of each of these key aspects.

- (b) Prepare a SWOT analysis showing only the opportunities and threats for *N-Pharma*. [4 marks]

The case study refers to several opportunities and threats (see below) though candidates may be credited for others, if appropriate (for example about exchange rates between currencies):

Opportunities include:

- illnesses and more health problems all around the world, resulting in an increasing demand for drugs (e.g. the more people at risk of heart attacks, the higher the demand for Pharmaflo) (lines 38–39)
- further trends for youth-obsessed looks, resulting in an increasing demand for anti-aging products such as Pharmatics (line 44)
- financial difficulties for competitors (especially small ones who could then be taken-over more easily) (lines 129–130)
- changes in the regulations on joint ventures at the European Union Commission (as it would enable the joint venture with *R-Taylor*) (lines 135–136).

Threats include:

- economic recession, leading to customers buying cheaper generic drugs rather than *N-Pharma* branded products (lines 53–54)
- another financial crisis, leading to a drop in the price of shares as in 2008 (lines 109–110)
- political tensions between China and Japan, creating problems with the development of the Beijing subsidiary (lines 146–147)
- more instances of PR problems e.g. another ethical scandal (lines 88–91).

Accept any other relevant answer.

In a SWOT analysis, opportunities and threats are external factors; consequently, an “internal threat” (such as industrial action in the Canadian subsidiary) and an “internal opportunity” (such as Susan James adopting a new leadership style) are not acceptable. They are misclassifications and the candidate cannot gain any marks for them.

Candidates are not expected to explain nor develop the opportunities and threats they identify; a list is acceptable.

[1 mark]

For a limited answer, with just a couple of valid points.

[2 marks]

For a basic answer, some of the opportunities and threats are correct and appropriate but some are not.

[3 marks]

For a satisfactory answer overall; most opportunities and threats are correct and appropriate, but the answer shows a slight imbalance (for example: three opportunities but only one threat).

[4 marks]

For a clear answer, with at least two correct and appropriate opportunities, and at least two correct and appropriate threats. One or two misclassifications may be present.

- (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]

Analysing an organization's **market position** using a SWOT analysis can be done in several ways, so this task may be addressed differently by candidates. For example:

- some candidates may develop a position map and answer in terms of marketing (with references to concepts such as positioning and USP)
- some candidates may decide to use Porter's five forces model in their answer and to examine *N-Pharma's* position towards its competitors (*i.e.* analysing *N-Pharma's* competitive advantage)
- some candidates may structure their analysis by successively examining *N-Pharma's* position in different national/continental markets
- some candidates may not use additional tools but can analyse the SWOT using the key points from the SWOT analysis (additional information and answer to part (b)).

Accept any other relevant analysis.

All these approaches are fine – what is assessed here is the candidate’s ability to analyse *N-Pharma’s position* by referring to the SWOT analysis. Just repeating key points from the SWOT analysis (additional information and answer to part (b)) should not be credited though: candidates must use these elements in their answer, and not just copy them.

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

3. (a) Define the following terms:

(i) *profitability (line 64)*

[2 marks]

The ability of a business to generate consistent sales revenue to cover costs over a period of time. It can be measured by using profit ratios such as GPM, NPM or ROCE.

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

Do not award any extra mark for the formulae of the profitability ratios (gross profit margin, net profit margin).

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. Key concept: consistent.

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

For a definition of profit (as opposed to profitability): award *[1 mark]*.

(ii) **liquidity (line 111).**

[2 marks]

The term “liquidity” is used in several cognate ways, which all relate to the availability of cash or the convertibility of assets into cash. The liquidity of an asset is its ability to be sold quickly and without any price discount – but a business itself could be described as having liquidity if it can easily meet its needs for cash (*i.e.* in simple terms, liquidity is the ability of a business to pay the bills). Two ratios can help calculate the liquidity of a business: the current ratio and the acid test (quick) ratio.

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

Do not award any extra mark for the formulae of the profitability ratios (current ratio, acid test (quick) ratio).

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. Key concept: convertibility.

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

(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]

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

$$\text{Acid test (quick) ratio} = \frac{\text{Current assets} - \text{stock}}{\text{Current liabilities}}$$

	Current ratio	Acid test ratio
2008	1.02 (accept 1)	0.68 (accept 0.7)
2009	0.89 (accept 0.9)	0.48 (accept 0.5)

(this is to 2 d.p.)

Award **[1 mark]** for each correct calculation.

- (c) Analyse *two* possible financial strategies to improve the values of the liquidity ratios in the USA subsidiary of *N-Pharma*. [7 marks]

Several strategies can help the USA subsidiary of *N-Pharma* improve the values of its liquidity ratios:

- delaying purchases (or getting longer payment terms from suppliers)
- reviewing credit policies with clients and customers (possibly adjusting them to minimize the time it takes to collect payment)
- reviewing expenses, especially overhead expenses (indirect operational expenses) as it might be possible to decrease them
- reviewing how assets are being used: it might be possible to sell some unproductive assets (such as buildings, equipment and vehicles) if they do not directly help generate revenue
- paying off their liabilities (would some more “internal” borrowing from *N-Pharma*’s global headquarters be useful in this respect?)
- factoring their debt, by substituting short-term loans with long-term loans
- reviewing the profitability of some of the *N-Pharma* drugs in the USA market (it might be possible to increase some prices to maintain or increase profitability though this has a rather indirect impact on liquidity)
- running down stock to turn into extra cash with the profits on the sales
- *any other valid suggestion of a relevant strategy.*

Candidates are not expected to refer to all the strategies mentioned above, but they should analyse at least two possible financial strategies to achieve the top markband.

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

SECTION B

4. (a) Define the following terms:

- (i) *delegation (line 59)* *[2 marks]*

Delegation (sometimes called “deputation”) refers to the transfer and sharing of authority and control of tasks and duties to another person. Typically, it allows a subordinate to make decisions and to feel empowered at work. The overall responsibility remains with the manager.

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. Key concepts: transfer of authority within limits.

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

- (ii) *performance-related pay (PRP) (line 72).* *[2 marks]*

Performance-related pay (PRP) is a method of financial motivation whereby employees earn according to how well (or how much) they work. “Piece work” is the most common example of PRP, although many schemes of commission are also based on the principle of PRP.

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. Key concept: rewarding performance.

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

- (b) **Explain the difference between crisis management (lines 111–112) and contingency planning for the USA subsidiary.** [4 marks]

Crisis management is reactive. A crisis is a major, unpredictable event that threatens to harm an organization and its stakeholders; in the case of the USA subsidiary's liquidity problems, the crisis needs to be managed, for example the short-term capital from the Tsukuba headquarters. Suzuko Tanaka's mission is to resolve the crisis (by identifying its causes and controlling its consequences).

Contingency planning is proactive. Contingency plans should be prepared before crises occur, anticipating problems and identifying possible courses of actions. In the USA subsidiary, the manager failed to engage in contingency planning (to prevent their liquidity problems from getting worse). As part of her crisis management, Suzuko Tanaka may design contingency plans in case the business loses its liquidity again.

Accept any other relevant explanation.

[1 mark]

The answer shows some confused or limited understanding of the difference between crisis management and contingency planning.

[2 marks]

The two concepts are understood and described, but the explanations or the illustrations remain limited.

[3 marks]

The two concepts are well presented and the difference is clear, but only one concept is well illustrated, or the difference is only partially explained.

[4 marks]

The two concepts are well presented and the difference is clearly explained, with references to the case study.

With no reference to the case study the candidate can achieve only a maximum of **[2 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]**

Some employees (such as the Australian employees of *N-Pharma*) may prefer non-financial rewards (such as job enrichment, job enlargement, empowerment and teamwork) to financial rewards (unlike the Canadian employees who are more motivated by financial rewards). Different types of non-financial rewards can affect job satisfaction and productivity in slightly different ways:

- Job enrichment means giving employees more interesting, challenging and complex tasks. It gives them the chance to test themselves and to use their full range of skills and abilities, which may be very relevant for *N-Pharma*'s researchers and scientists. They can thereby obtain a greater sense of achievement and possibly more praise or recognition of their work. Besides, employees may respond better as their managers have shown trust in the fact that they possess the ability to handle the increasing complexity and pressures of their work.
- Job enlargement means giving employees more tasks to do of a similar nature or complexity. This will reduce the monotony or repetition involved in their work; job rotation is a part of this and involves having a wider variety of tasks to do, perhaps rotating jobs with other members in one's team, but not increasing the challenge of the job. This might be more relevant for some of the lower skilled employees of *N-Pharma*.
- Empowerment means that power or authority is given to employees so they can make their own decisions regarding their working life. For instance employees may have control over how to use their time and decide which tasks could be done from home. According to the case study, the Australian employees are very keen on flexitime and teleworking, so empowerment could be a good strategy for Laura to change the employment patterns and practices at the Australian subsidiary so as to ensure higher productivity and stronger job satisfaction.
- Teamworking is where employees work in groups or teams. This can also meet an employee's social needs, as a person can more easily build friendships and feel a sense of belonging to a unit or group and hopefully to the business as a whole. It is very likely that *N-Pharma* researchers and scientists already work in teams, as R&D is a collective process, but Laura could put other teams in place, for example quality circles and management teams.

Accept any other relevant explanation as well as reference to methods such as flexi-working which arguably exemplifies non-financial rewards in practice.

Candidates are likely to write about these four methods/rewards; some could equally decide to answer firstly about job satisfaction (what it means and how non-financial rewards affect it) and secondly about productivity (what it means and how non-financial rewards affect it).

Award [1 mark] for each correct reward identified, and [1 mark] for the explanation of each of these rewards.

- (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]

Susan's authoritative leadership style contradicts with the Canadian employees' desire for more delegation and a wider span of control. Her inability to communicate and the tall organizational structure have only made the situation worse.

On the one hand, changes in her leadership style could improve productivity and morale:

- Employees are dissatisfied and disillusioned, which explains why their productivity is lower than in other *N-Pharma* subsidiaries (resulting in the Canadian subsidiary trading at a loss). By listening to the employees and providing them with the delegation, empowerment and other non-financial rewards they want, Susan could boost their morale and enhance their productivity.
- By becoming more democratic, Susan could involve employees in the decision-making processes to help identify some of the problems at the subsidiary (for example there might be some issues about supply chain or organizational culture that she is not aware of). Once involved by a democratic leader, employees could help solve the problems and prevent the causes of low productivity.
- By becoming more democratic, Susan could develop good two-way communication with her staff; communication has clearly been a problem in the past, hence the escalation towards industrial action could be avoided through a different leadership style.

On the other hand, further problems could arise from a (sudden) change in leadership style:

- Susan could lose the support from her management team and even from Yukio who sent her there because of her non-compromising attitude.
- Employees and negotiators may feel that she is malleable and threaten further action; to be successful, a democratic leader needs the support of the employees, but the situation may have been too conflictual to change.
- Susan herself could struggle psychologically as leadership styles are intrinsically linked to a person's own values and belief system; although she could be trained and coached to change her leadership style, it would remain unnatural for her (not believing in it herself, would she be able to make her workforce believe she has changed?).

Accept any other relevant answer.

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

SECTION C

5. (a) Identify *two* benefits for *N-Pharma* of subcontracting production to *Anigam*. [2 marks]

There could be a number of different possible responses including that *Anigam*:

- has experience in the animal welfare market
- is a world specialist in animal drugs
- is well established in the USA and Europe
- may be a suitable partner for a merger with *N-Pharma*
- *any other relevant benefit*.

Award [1 mark] for each correct benefit identified, up to a maximum of [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]

Kaizen, or continuous improvement, is part of a total quality management (TQM) approach to business. Kaizen involves small, gradual and continuous changes, which involve all members of the organization. Each change on its own may be of little importance, but the cumulative effect may be substantial.

Staff will be encouraged by management to establish a positive corporate culture which prioritizes quality and ethical practices. Teamworking is vital to the process and performance targets may be set for individuals and teams. Adherence to the procedures set following the 2008 controversy will be vital. Individuals should be empowered to make decisions relating to quality and ethical practices, even to the point where there are official channels to report abuses without fear of punishment.

Kaizen may lead to the following effects on corporate culture:

- encourages greater participation and collaboration
- empowers employees
- promotes self responsibility.

In the case of *N-Pharma*, there are issues related to both the quality of drugs produced – and their safety – and to the issues of ethical practices in all departments. The brand name of *N-Pharma* is built on its reputation for quality and safety as shown in its market research. The weight of public opinion is also in favour of ethical approaches in the pharmaceutical industry, especially in areas of animal experimentation. This approach may be even more crucial if the merger with *Anigam* goes ahead.

Kaizen may lead to the following effects on ethical practices:

- greater openness and transparency
- leaner production therefore less wastage
- improvements in quality will lead to less harm to animals.

Answers may also refer to the use of quality control techniques, using approaches such as the “fishbone” diagram.

Accept any other relevant explanation.

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

Award **[3 to 5 marks]** for an explanation of the role of a Kaizen approach in encouraging ethical practices and quality improvements within *N-Pharma*, that includes some reference to the case study and/or extension material.

Award **[6 to 7 marks]** for a thorough explanation of the role of a Kaizen approach in encouraging ethical practices and quality improvements within *N-Pharma*, that includes meaningful reference to the case study and/or extension material.

- (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]**

Porter’s five forces model was developed to support strategic planning in a competitive environment. The model is used to evaluate the “attractiveness” of growth opportunities. The model identifies five forces:

- the bargaining power of suppliers
- the bargaining power of buyers/customers
- the threat of new entrants
- the threat of substitute products and technologies
- the intensity of competition in the industry.

N-Pharma can use this model to make an informed assessment of its competitive position. The need to identify these forces will require *N-Pharma* to conduct extensive market research.

For example, the data in the extension material (*Item 4*) suggests:

- that suppliers are able to charge premium prices and that some shortages have occurred, increasing the power of the suppliers
- conversely buyers have been able to negotiate lower prices as the recession has hit and substitute generic products have appeared in the market place, reducing profit margins
- that competition in the market place appears significant and that it is concentrated in the hands of a few very large pharmaceutical companies. Barriers to entry appear as a result to be high.

However, Porter's five forces model needs to be used in conjunction with other business tools, such as SWOT and PEST analysis, to underpin its strategy. In addition, *N-Pharma* will need to consider whether it is able to alter the strengths of any of the forces in the market place through actions such as mergers and joint ventures.

Accept any other relevant examination.

To achieve [7 to 9 marks] candidates must apply Porter's model, making explicit references to the intensity of competition in the pharmaceutical market, the bargaining power of suppliers and customers, the threat of new entrants and substitute products.

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

- (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]

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.

A decision-making framework could involve all, or most, of the following:

- the setting of objectives
- clarifying the present position of *N-Pharma* – strategic analysis
- gathering data and information about the animal health market
- planning future action and resource requirements
- controlling the process and reviewing performance.

Alternatively in order to provide a suitable decision-making framework for their answer candidates may instead wish to make use of business tools such as:

- Porters generic strategies model
- Ishikawa fishbone diagram
- Lewin – force field analysis
- Ansoff matrix
- *any other relevant tool.*

In the case of the diversification into the overseas animal health market option:

- objectives may include market growth, product development, ethical objectives, brand development, profit
- information on the animal health market will be established through market research and through its links with *Anigam*
- planning future action and resource requirements will involve the setting of performance targets and budgets and marketing planning
- strategic implementation will occur when and if the diversification option is selected
- the control and review process will involve drawing up final accounts and comparing actual to planned performance.

The case study identifies opportunities in the “companion animal market” (the pet market), but other objectives should be in place for growth into other animal species sectors once the *N-Pharma* brand is established.

There are several factors given in support of the diversification.

Benefits:

- The global animal health industry is not just large – worth almost US\$18 billion in 2009 – but also has a high growth rate of 4.7%. The “companion animal health market” has been growing even faster at 6.6% per year and now represents a share of almost 42% of global animal pharmaceutical sales. Item 1 identifies that North America and Western Europe, where *Anigam* is well-established, represents almost 66% of the total value of the market.
- The companion animal market offers significant synergies for *N-Pharma* because it can modify and adapt its existing human drug portfolio, such as *Pharmaflo* and *Pharmaslim*, minimizing the time and cost of research and development.
- Item 3 suggests that the market is set to grow further because of increasing pet insurance and increasing ailments related to longer life spans and growing animal obesity.
- The potential merger with *Anigam* will offer *N-Pharma* the opportunity to tap into its experience in the USA and European markets and potential economies of scale.

However, the marketing manager knows that several of the directors remain concerned about the risks of this diversification.

Risks:

- *Anigam* has a task-focused “corporate culture based on project teams and matrix structures” which does not fit well with *N-Pharma’s* more traditional organizational structure and leadership style.
- Like *N-Pharma*, *Anigam* has recently been accused of unethical animal experimentation. The organization may not wish to be subject to more negative media stories.
- Item 4 refers to structural issues in the animal drugs market. 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. This will provide significant barriers to entry to *N-Pharma*.
- There are other significant barriers to entry to the market, both economic and legal and the global animal health products market will be adversely affected by the economic recession in the short run. This is shown by the decline in the sales in the global animal health market, from US\$17.9 billion in 2009, to US\$15.1 and US\$16.2 billion respectively in 2010 and 2011. Profit margins are falling.
- A lack of knowledge and experience in the animal health market in the USA and European markets.
- Many firms are moving production away from Europe and the USA.

The evaluation should balance the benefits and risks. The effect of the present recession, the lack of experience in these markets and the high barriers to entry may lead candidates to conclude that the risks are simply too high for *N-Pharma* at present. However, it would be equally valid to conclude that the potential benefits are significant and the experience of *Anigam* should be sufficient to justify this growth strategy, with or without a full merger.

To achieve **[10 to 12 marks]** candidates must make explicit use of a decision-making framework.

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