Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

BUSINESS **9609/32**

Paper 3 Case Study **October/November 2016**

3 hours

No Additional Materials are required.

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READ THESE INSTRUCTIONS FIRST

An answer booklet is provided inside this question paper. You should follow the instructions on the front cover of the answer booklet. If you need additional answer paper ask the invigilator for a continuation booklet.

Section A
Answer **all** questions.
Section B
Answer **one** question.
You are advised to spend no more than 40 minutes on Section B.
The businesses described in this question paper are entirely fictitious.

The number of marks is given in brackets [ ] at the end of each question or part question.

This document consists of **5** printed pages, **3** blank pages and **1** Insert.

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CAMBRIDGE International Examinations

Marco Fishing Incorporated (MFI)

Marco has just congratulated himself on the completion of another takeover deal. The MFI 'fish processing and packaging' business he controls is now one of the largest in Asia.

Marco bought his first boat when he was just 18 years old. That was 15 years ago. Marco has always been a hard worker. He used to fish longer each day than anyone else in his village and his tuna fish catches were usually the biggest. He sold all of his fish to a local entrepreneur, Lin, who then distributed them to restaurants and fish processing factories in country X. When Lin retired he offered Marco his distribution business for $35 000. Marco negotiated a final price of $25 000. Tough negotiation skills have been an important factor in Marco's success – together with his ability to delegate effectively.

Several years ago Marco gave up fishing himself and employed some local workers to take his boat out and do the heavy work of transporting the fish to customers. Marco focused on building up the customer base of the business as he had excellent contacts in the industry. Soon he had to buy more fishing boats to ensure adequate supplies of tuna. Although the annual revenue of the business was rising, the profit margin was low. Most value was being created by the 'fish processing and packaging' businesses that he was supplying. Marco decided that the future success of his business depended on becoming a fish processing and packaging business.

Marco decided to:

- Convert the business into a private limited company called MFI to raise equity finance
- Buy Asia Fish Processing (AFP), one of MFI's largest customers
- Recruit an experienced Operations manager, Suzy, for AFP's factories – Suzy reorganised production and bought expensive new automated processing and packaging equipment which contributed to a 75% increase in productivity
- Encourage existing managers to take more responsibility for accounting and human resource issues, allowing Marco to focus on marketing.

MFI is now a public limited company with Marco as Chief Executive.

Recent developments

Marco has, in recent months, given directors of MFI the authority to implement two important decisions.

Firstly, MFI bought another large food processing and packaging business, giving the company 55% of the market for processed and packaged fish products in country X. This decision was made despite Government ministers threatening to tighten consumer protection and competition laws relating to monopoly businesses.

The second decision was the introduction of a new brand name for the highest quality range of MFI's products – called FineDine. Top quality ingredients are used and labelled as 'dolphin friendly tuna' – tuna fish caught by fishing line with no risk to dolphins. Other FineDine features are competitive prices, distribution mainly through specialist food shops and social media promotions. Initial sales of products under the FineDine brand have been most encouraging. Marco is pleased with himself because it was his idea to develop this brand. He had told other directors at the time he made the decision: 'Trust me – I know the market better than most people and, even without detailed market research, I can tell you FineDine will be a winner, especially as incomes are rising in country X and the Government is planning to reduce income tax rates'.

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Recruiting a new Operations manager

Suzy has recently resigned and Marco needs to recruit a new Operations manager. Marco has asked a specialist recruitment agency to undertake this process and to shortlist the two best candidates. He will then select one to be the manager. Appendix 1 contains details of these two applicants. The new Operations manager will have to be very aware of the consequences to businesses such as MFI of the proposed new health and safety legislation which is being introduced in country X. This will give factory workers extra protection when working with machinery and require all workers to be trained in hygiene, emergency procedures and first aid.

Marketing decisions for country Y

The directors of MFI have decided to start exporting the FineDine brand of fish products to country Y. At the most recent Board meeting the success of this country's economy was discussed and all directors agreed that this would be a good time to enter this market. Important marketing decisions will have to be taken to ensure consistency with existing marketing strategies and alignment of the strategy with market conditions in country Y. The Board considered that a 5% market share in 2017 was a realistic sales objective. After the Board meeting Marco obtained a two year old market research report on country Y's market for processed fish. A summary is shown in Appendix 2.

Investment decision

Half of MFI's fishing boats are over 20 years old. Marco plans to replace these 10 boats with new, more fuel efficient ones. Increasing taxes on fuel and Government subsidies offered to boat operators with the most efficient types of boats in country X helped to influence his plans. MFI's accountant provided the following information to Marco.

'These new boats would reduce annual costs by $82 000 per boat, including the Government subsidy. We have two options.

We could lease the boats for 5 years at a cost per boat of $40 000 per year. When the total capital cost of the leasing contract is considered, I estimate a payback of 2.5 years and a net present value of $850 000 at a 10% discount rate.

Alternatively, we could purchase the boats. I have negotiated a discount for a large order of 10 boats and they would cost $320 000 each. The boat manufacturer has offered to buy these boats back in 5 years time if we purchased new ones again. The agreed resale value would be 40% of the purchase price.'

Marco agreed that new boats were needed, but reminded the directors that financing the investment would need careful planning as interest rates were rising in country X. He also wondered if the boats could be purchased more cheaply from foreign manufacturers as country X's currency is appreciating.

Food poisoning – are MFI products to blame?

Yesterday, the national television station covered a story about the death of a woman from food poisoning. The reporter said that the woman's husband suggested she had eaten a fish meal the night before and he thought it was an MFI branded fish product. Marco was watching television in his office at the time – he immediately started making telephone calls and sending e-mails. Could he and his fellow directors cope with this crisis without MFI suffering the risk of complete business failure?

Appendix 1: Information on shortlisted applicants for Operations manager

	Candidate A	Candidate B
Current post	MFI – assistant to Suzy, the previous Operations manager	Associated Foods – Operations manager
Age	54	36
Education	Degree in Operations Management	Degree in Business Management and Law
Number of previous jobs	5	1
Lean production experience	Given responsibility for introducing JIT within MFI packaging division	No direct experience – delegated lean production to subordinates
Explain your leadership style	'I set clear objectives and encourage employees to achieve their own goals'	'Food factories require strict guidance and employee control at all times'
Achievement of which you are most proud	'Coordinating the production processes of the different MFI factories'	'Reducing unit labour costs to the lowest in the industry'
Current salary	$37 000	$64 000

Appendix 2: Summary of 2014 market research report on country Y

Population growth 2000–2014	2% per year
GDP per head compared to country X in 2000	20% lower
GDP per head compared to country X in 2014	15% higher
Processed fish market size in 2014	$80 m
Forecast growth rate of processed fish market 2014–2017	10% per year
Revenue of largest fish processing company in 2014	$45 m
Change in annual revenue from the best-selling premium brand of processed fish when price increased by $1 to $5	Increased from $12 m to $14 m
Estimated advertising elasticity of demand for processed fish products	2.3
Proportion of processed fish sold by the 4 largest supermarket companies	78%

Appendix 3: 10% discount factors – value of $1 in future time periods

Year	1	2	3	4	5
Discount factor	0.91	0.83	0.75	0.68	0.62

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Section A

Answer **all** questions in this section.

1 Analyse the benefits to MFI of Marco's effective delegation. [10]

2 **(a)** Refer to lines 69–72. Calculate for the **purchase** of the 10 fishing boats:

(i) annual net cash flows [3]

(ii) payback period [2]

(iii) net present value at a discount rate of 10%. [3]

(b) Recommend to Marco whether the new fishing boats should be purchased or leased. [12]

3 Discuss the likely impact on MFI of the changes to the external legal and economic environment in country **X**. [14]

4 **(a)** Refer to Appendix 2 and the Board's market share objective on lines 55–56. Calculate:

(i) forecast value of MFI's sales in country Y in 2017 [3]

(ii) price elasticity of demand of the best-selling premium brand of processed fish. [5]

(b) Discuss a suitable marketing strategy that Marco could use for FineDine products in country Y. Use your results from **4(a)** and other relevant information. [14]

5 Recommend to Marco which one of the two applicants should be selected to be the new Operations manager. Justify your answer with reference to Appendix 1 and other relevant information. [14]

Section B

Answer **one** question from this section.

6 Discuss how MFI's directors should manage the food poisoning crisis. [20]

7 Evaluate the importance of strategic management to the future success of MFI. [20]

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