

# Growth, evolution and multinational companies

9 questions · 160 marks

Answer all questions. The marks available are shown against each part. Every question is taken unaltered from a past paper; the source is noted beneath it. Some questions are taken from higher level papers, where they examine the same standard level content.

## 1. Fritos Food (FF) 10 marks

*Fritos Food (FF)* is a restaurant started by Friya Shah that offers a range of fast food. *FF*'s customers have high brand loyalty, and demand is increasing. Friya is considering expansion, and she has identified three options, which are shown in **Table 2**.

**Table 2: Estimated financial data relating to the three expansion options**

|                                                                             | Cost (\$) | Probability                             | Expected revenue (\$) |
|-----------------------------------------------------------------------------|-----------|-----------------------------------------|-----------------------|
| <b>Option 1:</b> Renovate the existing restaurant                           | 35 000    | High returns (0.7)<br>Low returns (0.3) | 80 000<br>20 000      |
| <b>Option 2:</b> Invest in a new restaurant with the existing product range | 150 000   | High returns (0.7)<br>Low returns (0.3) | 200 000<br>50 000     |
| <b>Option 3:</b> Invest in a new restaurant and develop a new product range | 190 000   | High returns (0.7)<br>Low returns (0.3) | 320 000<br>50 000     |

- State **two** advantages for a business of having customers with high brand loyalty. [2]
- Using **Table 2**, construct a fully labelled decision tree **and** identify the best option for *FF* (*show all your working*). [6]
- Explain **one** advantage for Friya of using a decision tree. [2]

2.

**Birchie's Convenience Store Ltd. (BCS)**

10 marks

Fraser Birch is the owner of *Birchie's Convenience Stores Ltd. (BCS)*. Currently, *BCS* operates two small convenience stores.

*BCS's* profits have increased each year for the past three years. Fraser wants to expand the business. Expansion should result in economies of scale.

Fraser has identified three options for expansion:

- **Option 1:** Open a new store in a nearby village that currently has no convenience store.
- **Option 2:** Buy a small chain of three convenience stores that are for sale in the nearest city.
- **Option 3:** Continue to research the market for a year before making a decision.

Fraser would need to approach the bank for a long-term loan to help finance **Option 1** or **Option 2**. *BCS's* gearing ratio is 75%.

The probability that the economy improves over the next year is 0.45, the probability that the economy remains unchanged is 0.25, and the probability that the economy worsens is 0.3.

The forecasted costs and expected revenue for all three options are given in **Table 1**.

**Table 1: Information related to the three options for expansion (all figures in £000s)**

|                                                  | Forecasted costs | Forecasted revenue if the economy improves | Forecasted revenue if the economy remains unchanged | Forecasted revenue if the economy worsens |
|--------------------------------------------------|------------------|--------------------------------------------|-----------------------------------------------------|-------------------------------------------|
| <b>Option 1: Open a new store</b>                | 200              | 500                                        | 200                                                 | (100)                                     |
| <b>Option 2: Buy a chain of three stores</b>     | 700              | 1300                                       | 800                                                 | (150)                                     |
| <b>Option 3: Continue to research the market</b> | 0                | 120                                        | 80                                                  | (50)                                      |

- (a) Define the term *economies of scale*. [2]
- (b) Using **Table 1**, construct a fully labelled decision tree **and** identify the best option for *BCS* (*show all your working*). [6]
- (c) Explain **one** possible disadvantage for *BCS* of taking out a long-term bank loan to fund either **Option 1** or **Option 2**. [2]

3.

20 marks



*GenX Tyre Company (GX)* manufactures car (automobile) tyres. Many car tyres are produced using rubber and steel. *GX* uses the rubber and steel from used tyres as its raw materials. These used tyres would usually be discarded, which is a major source of pollution. Using a unique manufacturing process, *GX* can manufacture tyres at a similar cost as other tyre manufacturers. *GX*'s unique selling point/proposition (USP) is that its manufacturing processes are environmentally sustainable, which consumers like. *GX* has experienced considerable internal growth over the last five years.

(a) Define the term *unique selling point/proposition (USP)*.

[2]

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In its operations, *GX* uses several circular business models. *GX* has contracts with other businesses, such as car repair centres, car dealerships, and tyre retailers, which collect used tyres from customers when they buy new ones. These businesses then deliver the used tyres to *GX*, which pays for the cost of delivery.

*GX* puts the used tyres through a multi-stage process in which the tyres are chopped into tiny pieces. In a later stage, magnets extract steel threads from within the rubber. At that point, *GX* has the rubber and steel needed to make new tyres.

(b) (i) Explain **two** circular business models that *GX* uses to obtain rubber and steel to manufacture new tyres.

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- (ii) With reference to GX, explain why tyre manufacturing is unsuitable for a sharing circular business model.

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**Table 3** shows selected financial information for GX for the last four years.

**Table 3: Selected financial information for GX, 2021–2024**

|                                | 2021 | 2022 | 2023 | 2024 |
|--------------------------------|------|------|------|------|
| <b>Current ratio</b>           | 1.5  | 1.4  | 1.4  | 1.4  |
| <b>Acid test (quick) ratio</b> | 1.0  | 0.9  | 0.7  | 0.6  |
| <b>Sales (\$000 000s)</b>      | 69   | 77   | 89   | 105  |

- (c) Using **Table 3**, explain **one** reason why GX's rapid growth in sales revenue has weakened its liquidity.

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The board of directors are discussing whether GX has grown too quickly. Some directors think that GX should slow its sales growth, retain profit, and stabilize the business's financial position. Other directors, however, believe that GX should take advantage of the high demand for its tyres. Furthermore, many alternative uses for GX's rubber exist in the market, such as artificial grass (turf) on football fields (pitches). These other directors want GX to grow externally by forming joint ventures with businesses in industries other than tyres.

In a month, the directors will vote on two options that will determine GX's direction for the next five years:

- **Option 1:** Slow sales growth, retain profit, and stabilize the business's financial position.
- **Option 2:** Develop joint ventures with other businesses that use rubber but do not make tyres.

- (d) Using information in the stimulus, discuss whether GX should choose **Option 1** or **Option 2**.

[10]

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[illegible]

— IB 2225 - 5011 Business Management · May 2025 Paper 2 TZ1 SL, Question 3

#### 4. VinHalx Ltd. (VX)

20 marks

*VinHalx Ltd. (VX)* is a privately held company that is 51 % owned by the Klopp family. VX manufactures an electric motorcycle, the GG, in Germany.

The GG motorcycle was launched in 2022 and could only be purchased from VX's website. A fully charged battery allows the GG motorcycle to travel a distance of 120 kilometres before recharging is required. Battery performance and reliability are key factors in the GG motorcycle's success. Battery technology is developing rapidly. VX purchases its batteries from three battery suppliers; the batteries cost \$900 each, and one is required for each GG motorcycle.

VX uses a premium pricing method and launched the GG motorcycle at a price of \$12 000.

(a) State **two** features of premium pricing.

[2]

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**Table 3** shows selected information for the GG motorcycles for 2022–2024.

**Table 3: Number of GG motorcycles sold, sales revenue, and profit for period for 2022–2024**

|                    | 2022    | 2023    | 2024     |
|--------------------|---------|---------|----------|
| Number of GGs sold | 1700    | 2000    | 2750     |
| Sales revenue      | \$20.4m | \$24m   | \$30.25m |
| Profit for period  | −\$2m   | −\$0.5m | \$2.5m   |

- (b) To stimulate its sales, VX reduced the price of its GG motorcycles to \$11 000 in 2024.

Comment on VX's sales revenue for 2022–2024 shown in **Table 3**.

[2]

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- (c) VX forecasted a break-even level of output of 2000 GG motorcycles for 2022 and 2023. In 2023, VX paid out \$0.5m to repair faulty GG motorcycles.

Comment on VX's profit for period for 2022–2024 shown in **Table 3**.

[2]

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In 2024, feedback on VX's social media revealed that 40 % of potential customers were discouraged because they could not test ride a GG motorcycle before purchasing. In 2025, VX began selling GGs in motorcycle dealerships (businesses that sell vehicles, such as cars and motorcycles) throughout Germany. Dealerships sell motorcycles from different manufacturers, and all motorcycles can be test ridden. VX sells GG motorcycles for \$9000 to dealerships, which raise the retail price up to \$12 000 for retail sales. VX has forecasted sales of 3500 GG motorcycles for 2025.

- (d) Explain **one** advantage **and** **one** disadvantage for VX of selling GG motorcycles through dealerships.

[4]

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From 2026, VX plans to sell GG motorcycles throughout the European Union (EU). Selected forecasted financial data for VX is shown in **Table 4**.

**Table 4: Selected forecasted financial data for VX, 2026–2030**

| Year  | Number of GGs sold | Profit margin (%) | Profit before interest and tax (\$m) |
|-------|--------------------|-------------------|--------------------------------------|
| 2026  | 5000               | 15                | 4.5                                  |
| 2027  | 8000               | 15                | 7.2                                  |
| 2028  | 12 000             | 15                | 10.8                                 |
| 2029  | 14 500             | 10                | 8.7                                  |
| 2030  | 15 500             | 10                | 9.3                                  |
| Total | 55 000             | —                 | 40.5                                 |

VX plans to invest \$20 million to increase the production of GG motorcycles. External sources of finance would be used. Interest rates are increasing.

Recently, VX received an offer from *Zenon PLC* (ZN) for a five-year strategic alliance. ZN manufactures cars and has diversified into electric battery production. ZN's first electric battery, due for launch later in 2025, will retail for \$1200 and would increase the number of kilometres the GG motorcycle could travel before requiring recharge by 25 %. ZN will sell its electric batteries to VX for \$900 each. In return, ZN demands to be the sole battery supplier for the GG motorcycle. ZN has offered to invest \$20 million in return for a payment of \$500 from each GG motorcycle sold.

- (e) Using **Table 4** and information in the stimulus, discuss the advantages **and** disadvantages for VX of ZN's offer of a five-year strategic alliance.

[10]

## 5. Exotlce

20 marks

*Exotlce (EI)* is a private limited company producing and selling ice cream from a centrally located shop in a large capital city. Lena, the founder and chief executive officer (CEO), owns 80% of the shares. Her two daughters, who travel the world to find new and exotic natural ingredients for new flavours, each own 10% of the shares. The family value their freedom in the decision-making process and the collaborative and supportive nature of *EI*'s culture.

*EI*'s unique selling point/proposition (USP) is based on:

- outstanding quality and a variety of exotic flavours made from fat-free natural ingredients
- excellent service provided by highly trained, committed and efficient employees
- customer involvement – with the use of sophisticated technology and staff support, customers can experiment to create their own flavours of ice cream.

A strong brand name and brand loyalty has led to rapid growth in *EI*'s market share. However, long queues (lines) are forming and the number of customer complaints is increasing. Lena is worried about the negative impact on *EI*.

Lena is considering two strategic growth options:

- **Option 1:** Opening eight new shops locally and nationally over the next four years. To finance this internal growth, *EI* will sell new shares. After the sale, Lena will own 51% of the shares.
- **Option 2:** Franchising *EI* nationally. A small focus group conducted by one of Lena's daughters and made up of local entrepreneurs revealed a strong interest in *EI*'s USP. Ten franchises will open each year for the next five years throughout the country.

- (a) Define the term *unique selling point/proposition (USP)*. [2]
- (b) Explain the importance of people and processes in *EI*'s extended marketing mix. [4]
- (c) Explain **one** advantage **and** **one** disadvantage for *EI* of using a focus group. [4]
- (d) Recommend which of the two strategic growth options, **Option 1** or **Option 2**, *EI* should implement. [10]

6.

In 2003, Ben opened a street-food stall selling vegan food. The food stall was successful. Ben spent little on marketing, mainly advertising on the food stall itself and relocating it to places or events where many consumers would pass by.

20 marks

In 2008, Ben used the profits from the food stall to open a restaurant, *The Burnt Tomato (BTO)*, which initially employed 16 people. In the following years, labour turnover was low. Employees received an annual bonus, which increased with each year of employment.

In 2015, Ben created a website and began to use social-media marketing. Customers were encouraged to rate their *BTO* experience online. Their reviews consistently rated *BTO*'s experienced staff highly and showed that they thought the food was exceptional value. Ben replied to all reviews. Many *BTO* customers also joined a *BTO* social media group and communicated with each other and *BTO* regularly. For many customers, the total *BTO* experience of vegan food and social networking was like being in a club.

Unfortunately, high labour costs, reasonable profits and the use of high-quality ingredients meant that *BTO*'s gross and net profit margins were below industry averages.

Aware of the growing demand for vegan food, Ben borrowed money from a family member in 2018 and opened two more *BTO*s in different cities, hiring 32 new employees. However, in January 2019, a long-time customer of the original *BTO* ate at one of the new restaurants and wrote a negative review. The review went viral and sales at all three *BTO*s declined.

- (a) State **two** appropriate sources of finance Ben may have used when he first opened his vegan food stall. [2]
- (b) Explain **one** positive impact **and one** negative impact on *BTO* as a result of having low labour turnover. [4]
- (c) Explain **one** advantage **and one** disadvantage for *BTO* as a result of its use of social media. [4]
- (d) Discuss Ben's decision to enlarge the scale of *BTO* from one restaurant to three restaurants. [10]

## 7. Smith's Foods Ltd (SF)

20 marks

Charles Smith and seven friends started a private limited company, *Smith's Foods Ltd (SF)*, to produce ready-made healthy meals for people with diabetes\*. Using a cost-plus (mark-up) pricing strategy, *SF*'s mission is to make inexpensive, widely available meals that help diabetics manage their carbohydrate intake accurately.

Despite reliance on inexpensive social media marketing, *SF* grew rapidly. Due to this rapid growth, however, the quality of its products deteriorated, and a number of its meals were found to contain different quantities of carbohydrate than those stated on the packaging. Negative comments appeared on *SF*'s Instagram page. Charles responded quickly to reassure customers and offered refunds. *SF*'s response led to the company receiving an industry award for ethical behaviour.

Charles introduced flow production to reduce the cost of *SF*'s meals, which changed *SF*'s scale of operations and increased its gearing ratio. However, Charles had little business experience of using flow production and problems emerged.

External stakeholders began to look into *SF*'s operations. One supermarket chain, *Good Foods (GF)*, contacted Charles and offered to take over *SF*, keeping Charles on the board of directors. This takeover would allow *SF*'s meals to be produced at a lower cost and reach a wider target market. *GF* would also finance research and development into new meals with more carefully controlled carbohydrate levels.

However, *SF* would close. Negative publicity would be considerable. The remaining shareholders have threatened to launch a new business, creating their own brand of meals for people with diabetes in direct competition with *GF*.

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\* diabetes: a medical condition that causes a person's blood sugar level to become too high. People with diabetes need to be mindful of the amount of carbohydrates (which includes sugar) they include in their diet.

- (a) Define the term *cost-plus (mark-up) pricing strategy*. [2]
- (b) Explain **two** benefits for *SF* of using social media marketing. [4]
- (c) Explain **one** benefit **and one** cost to *SF* of using a flow production method. [4]
- (d) Discuss whether Charles should accept *GF*'s offer of a takeover. [10]

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— IB 8821 – 5012 Business Management · November 2021 Paper 2 HL, Question 4

8.

### Trestle Z PLC (TZ)

20 marks

*Trestle Z PLC (TZ)*, a specialist coffee roaster, operates in the secondary sector. Its instant coffees are sold worldwide in a very competitive market. Consumers in this market have strong brand loyalty.

Although demand for instant coffee has not grown in many richer countries, it is growing in emerging markets and Eastern Europe. *TZ* has no control over the price of its raw material (coffee beans), as prices are determined by world markets.



The directors of *TZ* want to increase the company's gross profit margin and net profit margin and grow the business. **Table 5** gives selected financial information for the company for 2019 and 2020.

**Table 5: Selected financial information for *TZ***

|                         | 2019 | 2020 |
|-------------------------|------|------|
| Gross profit margin (%) | 25   | 23   |
| Net profits (\$ m)      | 2300 | 1500 |
| Cash (\$ m)             | 600  | 400  |

*TZ*'s directors are considering two options.

#### **Option 1: Take over a specialist coffee business**

*TZ* is considering taking over *Green Glass (GG)* for \$600 million. *GG* owns 1000 cafés in the USA that sell speciality products at high prices. It also has an e-commerce subscription service that sells its coffee beans to consumers. In 2020, *GG*'s net profits were \$120 million. *GG* has a well-organized distribution channel and strong brand awareness in the USA. *TZ* would operate the cafés using the *GG* branding.

#### **Option 2: Launch its own chain of cafés**

These cafés would compete against established chains of cafés serving the mass market. Initially, the launch would be in three EU countries but would then, if successful, be launched across the world. *TZ* would produce a range of freshly ground coffees for sale in the cafés.



AV employs only 50 pilots, of which 20 are captains. Each of AV's flights has two pilots: the captain, with overall responsibility for flight safety and punctuality, and a first officer, who is less experienced. Captains also carry out the training of first officers.

AV's fleet of aircraft is one of the oldest in the region. The maintenance director recently said, "Unless new aircraft are purchased or leased, it is likely that safety issues may occur." Several captains have resigned. The pilots' union is in conflict with AV and argues that:

- flying into remote and secluded airports is dangerous and stressful
- salaries are below the industry average
- captains should be better paid for training first officers.

AV plans to recruit pilots externally to fill the captains' vacancies. AV will hire an agency to manage the recruitment process, which will take six months. Some of AV's first officers are expressing strong interest in applying for the vacancies.

(b) Explain **one** advantage **and one** disadvantage for AV of recruiting captains externally. [4]

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New low-cost airlines offering discounts and loyalty programmes are entering the South American market. AV now faces some challenges:

- It relies on low prices to sell tickets.
- Its customer database is limited, and data collected is not used.
- It wants to develop a customer loyalty programme but lacks experience.

(c) Explain **one** advantage **and one** disadvantage for AV of creating a customer loyalty programme. [4]

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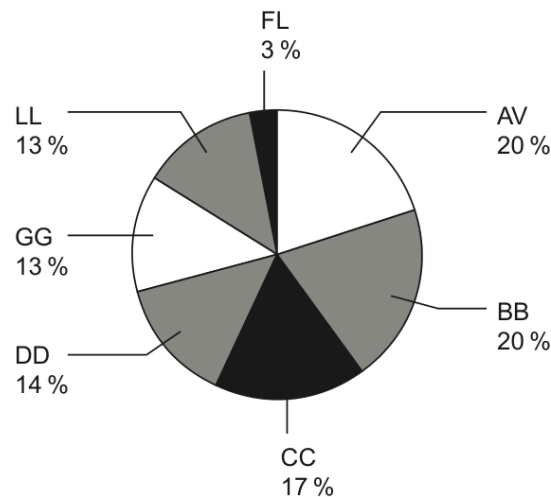
FL, a European airline that operates internationally, wants to increase its operations in South America. It has a modern aircraft fleet and numerous highly qualified departments including human resources (HR), marketing, IT, and safety and security. FL has a customer loyalty programme, but its customer satisfaction is low. FL does not deal with customer complaints successfully, and flight cancellations and delays are above the industry average.

Acquisitions and mergers are increasing in the airline industry. FL has proposed to AV a joint venture. AV's shareholders are unsure about the deal. AV's chief executive officer (CEO) has written a report on both airline companies. Selected financial information from this report is shown in **Table 5**.

**Table 5: Selected financial information from the CEO's report (all figures in %)**

|                                   | AV   |      | FL   |      | Industry average |      |
|-----------------------------------|------|------|------|------|------------------|------|
|                                   | 2022 | 2023 | 2022 | 2023 | 2022             | 2023 |
| Increase in aircraft repair costs | 7    | 9    | 0.5  | 0.5  | 3                | 4    |
| Profit margin                     | -1   | -2   | 0.5  | 1    | 0.2              | 1.5  |
| Gearing ratio                     | 1.6  | 1.5  | 16   | 18   | 6                | 5    |

Figure 2 shows the market share for airlines operating in South America.

**Figure 2: Market share for airlines operating in South America**

- (d) Using **Table 5**, **Figure 2**, and other information in the stimulus, examine whether AV should accept FL's joint venture proposal.

[10]