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Cambridge International AS & A Level

BUSINESS **9609/41**

Paper 4 Business Strategy **May/June 2023**

1 hour 15 minutes

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You must answer on the enclosed answer booklet.

You will need: Answer booklet (enclosed)

INSTRUCTIONS

- Answer **all** questions.
- Follow the instructions on the front cover of the answer booklet. If you need additional answer paper, ask the invigilator for a continuation booklet.

INFORMATION

- The total mark for this paper is 40.
- The number of marks for each question or part question is shown in brackets [ ].

This document has **4** pages. Any blank pages are indicated.

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Luxury Hampers (LH)

In 2015 Loretta bought LH, an established food hamper business. A hamper is a gift box or basket containing food and drink. Loretta purchased the business for $500 000 using a combination of personal savings and venture capital. Loretta set a short-term objective of profit maximisation and planned for rapid expansion within a five-year period.

LH buys high-quality food and drink products directly from manufacturers and packages the products into hampers to sell as luxury gifts.

Timeline of LH

2015–2017	Focus on business efficiency improvement using better inventory control and management of costs. Marketing changes from targeting individual customers to targeting national corporate customers. LH develops online marketing capabilities.
2018	Loretta identifies PS (an international luxury gift supplier) as a suitable target for takeover. Loretta prepares a SWOT analysis for LH and PS (see **Appendix 1**). After the takeover, LH uses the brand name of LH nationally, but uses the PS brand name internationally to retain brand awareness.
2019–2020	Investment into rapid development of international corporate customers.
2021	All products now sold using the LH brand. Loretta is asked to present financial data about the impact of the takeover of PS at the annual general meeting (AGM) (see **Appendix 2**).
2022	LH receives increasing numbers of negative online reviews (see **Appendix 3**). Outdated IT systems and quality control procedures identified as problems.

Developing an operations strategy

In 2023, a cyber-attack corrupted 75% of LH's IT systems and data. Incomplete supplier data was recovered. However, all customer data was lost. This led to cancelled orders and LH experienced considerable damage to its reputation.

LH's shareholders called an extraordinary general meeting (EGM) and Loretta was replaced as Managing Director by Sanjay, the Operations Director.

Sanjay has identified several problems which need to be solved in both the short and long-term. He considers there are several opportunities to improve LH's operational efficiency.

Sanjay knows a new operations strategy must be developed with an appropriate budget. The strategy will have clear objectives to increase data security and improve customer service.

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Appendix 1: Extracts from 2018 SWOT analysis for LH and PS

LH	
Strengths	Weaknesses
• Efficient inventory control	• Limited number of local suppliers
• Experience of online marketing to national corporate customers	• No international brand awareness

PS	
Strengths	Weaknesses
• Established international luxury brand awareness	• Lack of online expertise as it sells direct to luxury retailers
• Short trade receivables period (15 days)	• Inefficient inventory control
• Wide range of reliable national suppliers	• Consistently low dividend per share

Appendix 2: Extracts from LH's financial data presented 2021

	After takeover of PS		Before takeover of PS	
	2020	2019	2017	2016
Revenue ($m)	61	56	30	25
Operating profit margin (%)	11	19	32	29
Gearing (%)	85	80	10	15
Trade receivables (days)	25	30	50	7
Acid test ratio	0.2:1	0.2:1	0.7:1	0.7:1
Dividend per share ($)	0.5	1	5	4

Appendix 3: Extracts from online reviews in 2022

'Although the packaging was excellent and the hamper was delivered on time, the contents were not what I ordered! Not happy and not using LH again!'

'LH over-promised on delivery times. I wanted to provide New Year hampers for all of my senior managers across Europe and they were delivered after the festival period.'

'Impossible to contact LH customer service. Ordered from someone much better!'

Answer **both** questions.

1 Evaluate whether LH made the correct strategic decision to take over PS. [20]

2 Advise Sanjay on an operations strategy for LH to overcome the problems it is experiencing. [20]

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