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Cambridge International AS & A Level

BUSINESS **9609/41**

Paper 4 Business Strategy **May/June 2024**

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.

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Luxury Cars (LC)

LC is a manufacturer of luxury cars based in the US. Its customers expect LC to use premium materials in its cars. Customers are willing to pay higher prices than those charged by LC's competitors. The company's reputation for 'affordable luxury' is critical to its promotional strategy.

LC's main customer markets are in the US and Europe. These two geographical areas were originally operated as individual profit centres. LC employed experienced design engineers and market research teams in each area. This ensured LC met the distinct customer needs in each area.

Timeline of LC

2009–2013	LC struggles to recover from the global financial crisis which reduced consumers' disposable incomes.
2014	New Chief Executive, Juan Pedro, appointed (see **Appendix 1**).
2015	Organisational structure changes from geographical to functional areas. Inventory management and budgets controlled centrally by US head office.
2016	LC develops an enterprise resource plan in response to budgetary constraints (see **Appendix 2**).
2017–2018	LC closes its least profitable, labour-intensive factories.
2019	LC reduces its product range.
2020	LC invests in one new capital-intensive factory financed by a bank loan.
2021	Employee contracts are changed to improve workforce flexibility (see **Appendix 3**).
2022	Labour productivity decreases and labour turnover increases.
2023	Board of Directors reviews LC's financial performance (see **Appendix 4**).

A new Human Resource (HR) strategy

A recent SWOT analysis indicated to the Board of Directors that LC has lost the support of its employees when it introduces strategic changes which directly affect them.

There has been a loss of experienced workers with design and IT skills. This has led to a reduction in overall output across all factories. Productivity is 30% lower than projected. LC has received feedback from its employees (see **Appendix 5**).

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Appendix 1: press release announcing LC's new CEO in 2014

LC has appointed Juan Pedro, a former Finance Director, as its new Chief Executive. Juan is eager to use his experience to introduce strategic changes which will cut costs. Juan promises 'higher dividends will be paid to shareholders within the next ten years.'

Appendix 2: extracts from LC's enterprise resource plan in 2016

- Centralised finance department to allocate all costs and calculate profit margins.
- Monthly financial reports to be sent to head office to monitor performance and decision-making.
- Inventory holding costs to be minimised.

Appendix 3: new production employee contracts in 2021

- Change from salary to time-based contracts.
- All bonuses removed.
- Guaranteed working week reduced from 40 to 20 hours.
- All hours worked, including overtime, paid at standard hourly rate.
- LC's contribution to employee pensions reduced.

Appendix 4: ratio results based on LC's financial statements 2014 to 2023

	2014	2017	2020	2023
Gross profit margin	40%	50%	60%	40%
Operating profit margin	5%	4%	8%	6%
Rate of inventory turnover (times)	12	15	24	24
Gearing	40%	40%	65%	63%
Current ratio	1.2 : 1	1 : 1	1 : 1	1 : 1
Acid test ratio	0.4 : 1	0.7 : 1	0.8 : 1	0.8 : 1
Dividend yield	2%	1%	1%	5%

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Appendix 5: feedback from employees in 2024

‘The new contracts state 20 hours but I’m expected to work 45 hours most weeks with no increase in hourly rate.’

‘Why should the impact of strategic change always fall on workers?’

‘I’ve got to do two jobs now because LC’s contract only guarantees 20 hours.’

‘We are never involved in any decision making.’

‘I’ve never worked in a worse job!’

‘I feel like just another machine in the automated factory.’

Answer **both** questions.

1 Evaluate LC’s business performance between 2014 and 2023. [20]

2 Advise LC on a new HR strategy to improve employee performance. [20]

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