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Cambridge International AS & A Level

BUSINESS **9609/43**

Paper 4 Business Strategy **October/November 2023**

1 hour 15 minutes

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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Rio Textiles (RT)

Carlos set up RT in 2010 with a small factory to weave and print fabrics used in the fashion industry. RT is located in Brazil, which is one of the world's largest producers of cotton cloth. However, Brazil exports very little as nearly all cotton cloth is used within the country.

Timeline of RT

2015	RT becomes a private limited company. Employs more fabric designers.
2016–2018	Improves operations procedures in the factory to increase efficiency and productivity (see **Appendix 1**).
2019	Take-over of three cotton farms, which secures RT's supply of raw material (see **Appendix 2**).
2021	Relocates to a larger factory and purchases technologically advanced cotton processing machines (see **Appendix 3**).
2022	Takeover of Cabana Fabrics (CF), a smaller competitor with two cotton farms (see **Appendix 4**).

A new direction

Brazil is a middle-income country and is increasing its exports. One of Brazil's most important exports is soya beans, which make up much of the world's supply. Carlos believes there are several opportunities to diversify to allow for further growth and expansion. RT could enter different fabric markets, start to export its products or develop new products with its farm and factory resources.

Carlos aims to achieve 'profit through diversification'. He wants to propose a new business strategy for the next five years to the Board of Directors.

Carlos is planning to undertake a PEST analysis but needs advice on this and other approaches he should use to develop RT's new business strategy.

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Appendix 1: Lean production – extracts from 2018 Operations report

RT implemented lean production in its cotton processing factory which has increased efficiency. The cost savings which have resulted from introducing several lean production techniques have increased profit margins.

However, there have been some supply interruptions from late deliveries of cotton. Annual labour turnover has increased by 5%.

Appendix 2: 2019 Brazil fabric industry magazine article

Last week there was a take-over of three of the largest cotton farms in the north of the country by fabric manufacturer RT. The deal, thought to be worth $3.5m, will see RT secure its supply of cotton and enter the farming industry for the first time. Since its establishment in 2010 as a fabric printing firm it has grown so that it weaves its own fabric and now grows its own cotton. This should enable RT to increase its production and make it one of the top five fabric producers in the country.

However, a business analyst commented that RT must be aware that managing farms is a very different challenge to managing a factory.

Appendix 3: RT's 2021 investment in its new factory and machines

- RT's mortgage debt increases to finance the purchase of the factory.
- RT's fabric production capacity increases by 66%.
- Machines costing $1.5m are financed through a share issue.
- Critical path analysis (CPA) helps manage the purchase and installation of machines.

Appendix 4: Selected accounting data for RT

(before and after the 2022 takeover of CF)

	March 2021	March 2023
Current Ratio	1.25:1	2:1
Acid Test Ratio	0.65:1	0.45:1
Gearing	60%	90%
Return on Capital Employed	26%	9%
Profit for the year	$2.1m	$0.9m

Answer **both** questions.

1 Evaluate the extent to which RT's operations strategy has supported the success of the business from 2015 to 2023. [20]

2 Advise Carlos on which approaches RT should use to develop a business strategy to achieve 'profit through diversification'. [20]

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