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Cambridge Assessment International Education

Cambridge International AS & A Level

BUSINESS **9609/41**

Paper 4 Business Strategy **October/November 2024**

1 hour 15 minutes

8609350788

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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Designer Floor Cleaners (DF)

Penny and Vijay set up DF in 2010 in country X. They converted DF into a public limited company in 2014.

DF designs and sells steam floor cleaners. Manufacturing is outsourced to low-cost countries. DF's unique selling point (USP) is modern and stylish designs.

DF developed its brand using paid social media influencers to promote its goods. DF sold direct to customers on its website. This strategy was successful and DF developed a strong brand identity.

DF only used 10% of its profits for research and development and distributed the remainder in dividends.

Timeline of DF

2014	Features on a popular TV programme and gains nationwide brand recognition.
2015	Enters into a strategic alliance with Alliance Brands (AB) to stock DF products in AB's 2000 stores in country X.
2016	Rapid market growth in country X.
2017	Increased competition from manufacturers of innovative battery-powered floor cleaners. DF starts new 'Fly-away' promotional strategy (see **Appendix 1**). Cost to be shared equally between AB and DF. Demand is much greater than expectations.
2018	DF refuses the majority of 'Fly-away' applications. Negative comments from angry customers trend on social media. The 'Fly-away' promotion crisis is highlighted on consumer TV programmes.
2019	AB uses social media to place blame on DF for rejected 'Fly-away' applications. DF's market share falls.
2020	DF reduces prices.
2021	AB cancels agreement to sell DF products and returns unsold inventory.
2022	Economic expansion in country X leads to market growth for consumer durable products.
2023	DF's annual report includes a 10-year financial review (see **Appendix 2**).

Developing a strategy for growth

DF's Board of Directors want to look ahead and develop a strategy to grow the business. Partly based on a recent PEST analysis, the directors are considering two alternative strategies (see **Appendix 3**).

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Appendix 1: Fly-away promotion 2017

The offer: Spend $350 on DF product in an AB store and get 2 free return plane tickets between 1 September 2018 and 25 December 2019.

Expected outcome: 10 000 customers are expected to apply.

Actual outcome: 150 000 customers apply for tickets.

Promotional cost: Average cost to DF of two return flights is $100.

Terms and conditions include:

- Return of postal application form within seven days of purchase.
- Customer to select three airport and date options.
- DF can reject customer airport selection and one alternative will be provided.

Appendix 2: DF ratio results

	2014	2017	2020	2023
Gross profit margin	40%	45%	20%	25%
Return on capital employed	8%	15%	10%	10%
Current ratio	1.1:1	1:1	2:1	3:1
Trade receivables turnover	59 days	62 days	30 days	20 days
Trade payables turnover	10 days	10 days	40 days	60 days
Rate of inventory turnover	12 times	11 times	12 times	6 times
Price/earnings ratio	10	10	8	5
Gearing	10%	15%	30%	35%

Appendix 3: DF's two possible growth strategies

	Growth strategy A	Growth strategy B
Details	Take over manufacturer of battery-powered floor cleaners.	Increase investment in research and development to develop artificial intelligence (AI) floor cleaners.
Chance of successful outcome	High	Medium
Competitive rivalry in market for this type of cleaner	High	Low
Forcefield analysis: main constraining factor	Need for organisational restructure	Need to recruit research engineers

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Answer **both** questions.

1 Evaluate the extent to which corporate planning could have prevented the 'Fly-away' promotion crisis. [20]

2 Advise DF on the likely impact of ratio results on its choice of future growth strategy. [20]

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