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Cambridge International AS & A Level

BUSINESS **9609/43**

Paper 4 Business Strategy **October/November 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. Any blank pages are indicated.

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Fletcher Brenton (FB)

FB is an independent watchmaker which has been manufacturing watches in Switzerland since 1860. FB started with pocket watches and in 1912 was one of the first businesses to design wristwatches as fashions changed.

The current CEO is Stefan Fletcher who is also the only shareholder. Two key features of his finance and accounting strategy are:

- never to use long-term borrowing
- to pay high dividends every year.

FB has always innovated in watch technology, including the use of calendar and astronomy dials, self-winding mechanisms and the design of sports and nautical watches.

Its exclusive designs and limited editions have made FB's watches collectable and in high demand, with most selling for between $55 000 and $100 000.

The watches are handmade in its Swiss workshop before being exported to countries to sell in FB's showrooms.

Timeline of FB

2016	Recovery from the global recession of 2008–12 has been slow, with FB reporting a loss for the fourth year in a row.
2017	FB increases promotional spending on its existing range and launches two special editions.
2018	FB expands production capacity and refurbishes its workshop in Switzerland (see **Appendix 1**).
2020–2021	160th anniversary watch is launched (see **Appendix 2**).
2022	Review of FB's accounting and finance performance (see **Appendix 3**).
2023	Stefan Fletcher announces plan to retire in 2025. There is no family to pass the business onto after 162 years. Scenario plans are drawn up for the leadership and future strategies of the business (see **Appendix 4**).

Developing a new business strategy

FB is facing an uncertain future. The issue of selecting a new leader for FB following Stefan's retirement has still not been resolved.

FB and its competitors are facing a number of issues including:

- advances in digital technology in the sports watch market
- problems with predicting demand in a volatile global economy
- changes in the competitive market.

The focus of the Board of Directors is to use scenario planning to help them develop a strategy for FB.

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Appendix 1: Extract from Finance Report on the expansion of the workshop 2018

FB purchased the property next to its workshop for $2.2m. The cost of renovation and development of the two properties was a further $2.75m. Cash was used to fund this to keep to FB's strategy of no long-term borrowing.

Appendix 2: Extract from FB's 160th Anniversary report 2020

2020 is our 160th anniversary and has seen the launch of our limited edition watch with a selling price of $160 000.

However, in unprecedented times demand and sales have fallen. This, along with the depreciation of the Swiss currency, has reduced the cash balance although the directors are confident that it is sufficient to allow FB to survive.

Appendix 3: Selected financial information for FB 2016–2022

	2016	2019	2022
Revenue ($m)	14.2	59.0	24.1
Profit/(loss) for year ($m)	(3.06)	7.2	(0.1)
Inventory ($m)	12.86	14.9	16.2
Cash ($m)	2.9	6.6	0.8
Dividends paid ($m)	5.0	5.0	5.0
Gross profit margin	31%	34%	29%
Operating profit/(loss) margin	(24)%	16.2%	0.3%
ROCE	(22)%	32%	0.3%
Current ratio	1.05:1	1.52:1	0.91:1
Acid test ratio	0.29:1	0.63:1	0.41:1

Appendix 4: Extract from the scenario planning for FB 2022

Issue	Possible scenarios		
Succession planning for Stefan's retirement	Appoint new CEO	Sell FB	Close the business
Volatility in the global market	Exchange rate volatility	Income volatility	The competitive market
Changes in sports watch technology	Lead new technology development	Follow new technology development	Leave sports watch market

Answer **both** questions.

1 Evaluate the impact of FB's finance and accounting strategy on its performance between 2016 and 2022. [20]

2 Advise the Board of Directors on whether scenario planning is the most useful approach to develop a new business strategy for FB. [20]

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