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# Business management

## Higher level and standard level

### Paper 1

30 April 2025

Zone A afternoon | Zone B afternoon | Zone C afternoon

1 hour 30 minutes

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#### Instructions to candidates

- Do not open this examination paper until instructed to do so.
- Read the case study carefully.
- Section A: answer all questions.
- Section B: answer one question.
- You are permitted access to a calculator for this paper.
- The maximum mark for this examination paper is **[30 marks]**.

## Myt PLC (Myt)

*Myt PLC (Myt)* is a publicly held multinational company that manufactures non-alcoholic drinks. *Myt's* head office is in the United States (USA). *Myt* owns manufacturing factories on six continents.

5 *Myt* has grown in size through internal and external growth. Initially, *Myt* manufactured just one drink: a root beer that was non-alcoholic, sweet, and carbonated. By 2020, *Myt* had developed its own large portfolio of over 30 different drinks, which it sells in bottles and cans. *Myt* uses social media influencers as part of its promotional strategy.

10 Obesity and diabetes are two health issues that have been linked to drinks, many of which provide the entire recommended daily sugar intake for an adult in a single can. However, sugar substitutes used in diet drinks have also been linked to various health problems. Many of *Myt's* drinks are high in caffeine and sugar.

In 2023, *Myt's* board of directors began a process of diversification, taking over:

- *Lotssa Coffee (LC)*, a chain of coffee shops with over 4000 outlets across 35 countries
- *Honest Water (HW)*, a manufacturer of bottled drinking water.

15 *Myt* announced plans to:

- modernize and make its factories green
- explore entering the healthy snacks market
- utilize computer-generated avatars when creating advertisements
- reduce caffeine and sugar levels in its products
- 20 • improve its corporate social responsibility (CSR).

The takeover of *LC* was not as straightforward as *Myt's* management had expected. *Myt* had always been in the secondary sector and operated with limited hierarchy. After taking over *LC*, however, *Myt* also operated in the tertiary sector and required a more vertical organization chart.

25 *LC's* management had a democratic leadership style. *Myt's* management had always used an autocratic leadership style. Each organization worked well with its chosen leadership style. However, after the takeover, many of *LC's* employees noticed a move away from the former democratic leadership style. *Myt* also discovered more barriers to communication than before.

30 All drinks companies, including *Myt*, aggressively promote their corporate social responsibility (CSR) because of criticism from pressure groups. This criticism includes the overuse of limited water resources in some parts of the world and the manufacturing of drinks with too much sugar.

Both *LC* and *HW* retained separate identities from *Myt*. *Myt* owned 100% of the shares of each company. Both *LC* and *HW* were growing quickly, with increasing market share in growing markets.

When *Myt* purchased *LC* and *HW*, *Myt's* board of directors decided that the funds to buy both companies would come from:

- 35 • cash
- loans
- the sale of new shares of *Myt*.

40 *Myt* was also undertaking considerable expenditure on various programmes, such as paying the costs of employees taking university courses and purchasing more expensive recycled plastic bottles for its drinks. These more expensive bottles are biodegradable.

45 At the 2024 annual meeting of shareholders, *Myt*'s chief executive officer (CEO) announced that the board of directors was considering a takeover of *TevenDejo* (*TD*), a chain of tea shops with over 500 shops in the same countries where *LC* operates. These shops served only hot tea and did not sell unprepared tea leaves, which meant that they did not need expensive display cases filled with various teas.

Like *LC*, *TD* has strong brand awareness. *TD*'s brand is popular with people aged under 30, and *TD* is growing rapidly. *LC*, however, generally appeals to people older than 45, and, in terms of internal growth, *LC* is at the maturity stage in its product life cycle.

50 A high percentage of *TD*'s total costs arise from the lease payments it makes on its 500 shops and on wages and salaries paid to its employees. 80% of *TD*'s shop leases are due for renewal in the next two years.

55 *TD* has experienced fast growth in sales in the last four years. During this period, it has made widespread use of special offers to charge less than its main competitors. *TD*'s special offers change each month and are well publicized on television and radio and in newspapers. *TD*'s marketing expenses have increased by an average of 10% every year since 2021.

**Table 1** shows *TD*'s sales revenue and gross profit margin.

**Table 1: *TD*'s sales revenue and gross profit margin, 2021–2024**

	Sales revenue (\$ millions)	Gross profit margin (%)
2021	500	50
2022	550	46
2023	580	43
2024	610	40

60 To reduce labour costs, *TD* trialled changing employees paid hourly to assistant managers on a fixed salary in 200 of its tea shops. However, a journalist found that these new “assistant managers” were still cleaning tables and emptying bins and now had to work an extra eight hours a week, unpaid, over their contracted working hours. Many media reports appeared about the mistreatment of these “assistant managers”.

65 Many stakeholders were concerned about *Myt*'s possible takeover of *TD*. With its liquidity weakened by the first two takeovers (*LC* and *HW*), *Myt* was not in a position to make another takeover using only cash. Shareholders also voiced concern over *TD*'s exploitation of its employees.

After *Myt*'s CEO made the announcement about the possible takeover of *TD*, one powerful shareholder, Afa Kibet, who owned 12% of *Myt*'s shares, argued for the takeover. She said that gaining a larger market share in their existing market was a less risky approach. She also said that together, the locations of *LC* and *TD* coffee and tea shops make up a perfect market for market penetration. Afa pointed out that all countries in their market have a large or growing middle class that enjoys and can afford to go to a café or tea shop for a hot drink and that many young people prefer drinking tea to coffee.

A second shareholder, Amina Hamisi, wanted the company to think through this decision carefully. She argued that *Myt* had options and that the board of directors should consider other strategies. Amina, like other shareholders, also expressed concern that *Myt* had very limited liquidity and too much debt from loans to take over another business.

*Companies, products, or individuals named in this case study are fictitious and any similarities with actual entities are purely coincidental.*

## Section A

Answer **all** questions from this section.

1. Define the term *levels of hierarchy*. [2]
2. State **two** ways in which market share can be measured. [2]
3. With reference to *Myt* and *LC*, explain the difference between the secondary sector and the tertiary sector (lines 21–23). [4]
4. With reference to *Myt*, distinguish between internal and external growth. [4]
5. Explain one action that *Myt* is taking towards improving its corporate social responsibility (CSR). [2]
6. Explain **two** possible barriers to communication at *Myt* and *LC* (line 27). [6]

## Section B

Answer **one** question from this section.

7. Discuss whether *Myt* should take over *TD*. [10]
  8. Using the Ansoff matrix, recommend to *Myt* a growth strategy **other than** market development. [10]
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