

OXFORD CAMBRIDGE AND RSA EXAMINATIONS

Advanced Subsidiary GCE

BUSINESS STUDIES

2871

Businesses, Their Objectives and Environment

Thursday

12 JANUARY 2006

Afternoon

1 hour

Additional materials:
8 page Answer Booklet

Candidates may use calculators in this examination.

TIME 1 hour

INSTRUCTIONS TO CANDIDATES

- Write your name, Centre number and candidate number in the spaces provided on the answer booklet.
- Answer **all** questions.
- If you use extra sheets of paper, fasten the sheets to the answer booklet.
- Read each question carefully and make sure you know what you have to do before starting your answer.

INFORMATION FOR CANDIDATES

- The number of marks is given in brackets [] at the end of each question or part question.
- The total number of marks for this paper is 45.
- You will be awarded marks for the quality of written communication where an answer requires a piece of extended writing.

This question paper consists of 4 printed pages.

Answer **all** questions

- 1 Max is about to launch a takeover bid for a smaller plc, Westons. (Line 6)
State **one** difference between a merger and a takeover. [2]
- 2 Analyse the **economic** influences that might affect the demand for Mytre UK's mobile phones. [9]
- 3 **Other than economic influences**, evaluate the major influences that are likely to affect Mytre UK. [14]
- 4 "This takeover will help us reach our strategic objective of profit maximisation." (Line 69)
Outline **one** difference between a tactical and a strategic objective. [4]
- 5 "This takeover will help us reach our strategic objective of profit maximisation." (Line 69)
To what extent will the objective of profit maximisation benefit Mytre UK's stakeholders? [14]

Mytre UK

Max Rhodes is Chief Executive of the UK division of 'Mytre', a large American multinational that sells a wide variety of products worldwide. Mytre UK supplies a variety of electrical goods but mainly mobile phones and digital cameras. Max, who had been 'fast-tracked' for promotion throughout his career at Mytre, sat in his office and contemplated the future. It looked good. He had received approval from the parent company in Ohio to launch a takeover bid for a smaller plc, Westons. This would, he felt, be very beneficial. 5

Westons' core business is manufacturing LED displays for all sorts of electrical products. It specialises in smaller screens of the type used in mobile phones and video cameras and, consequently, there is already a link to Mytre's own product portfolio. A takeover would give Mytre access to Westons' small, low cost, but good quality LED displays. However, what had caught Max's attention was not just this fact. Westons also develops and sells various types of software for palmtop computers. Max is certain that other competitors had not yet seen the potential of some of this software. Max believes that it could be fairly easily adapted to combat the viruses which attack 'Smart' mobile phones. 10 15

Smart phones are a combination of 'ordinary' mobile phones and handheld computers. This means that they have a number of interesting features. Many of these phones have an 'always on' connection to the Internet and allow the web page to be reduced in size without affecting quality. As well as Internet access, Smart phones have a variety of other functions. For example, they can be used to send e-mails, make and send videos, manage appointments and play games. Max knows that there is a huge consumer market for Smart phones, not only in the mature mobile phone markets of Europe and North America, but potentially worldwide as well. The markets in Russia, India and China look particularly attractive. There is also a considerable potential on the corporate side. 20 25

Smart phones, however, have a major disadvantage: like PCs they have memory chips and processors and so are vulnerable to attack from viruses. Until relatively recently, viruses have largely been confined to computers, but the mobile phone industry is waking up to the fact that Smart mobile phones are increasingly susceptible. There have already been some instances of virus attacks and many people in the industry, including Max, believe that it is only a matter of time before some serious problems arise and damage is caused. 30

Max has a lot of confidence in his Product Development Team which incorporates a group of computer specialists. He feels that if Mytre could acquire Westons' software, his company would be in a 'win/win' situation. Hopefully, the technology could quickly be adapted into anti-virus protection for phones and launched in a "mighty Mytre protection for your phone" type of campaign. On the other hand, Mytre could launch it triumphantly following a major virus attack. Max thinks this might be even more profitable. He could imagine the sort of advertising for this as well: "Don't worry; the new generation of Mytres is protected". Of course, he told himself, it's not nice to profit from others' misfortune, but a business has to make the most of an opportunity when it sees one. 35 40

Max feels that it is now time for action and the takeover bid should start. Six months ago he had heard rumours that Westons was in financial trouble and was looking for a suitable opportunity to merge. The story was that the financial trouble was 'considerable', and that when its Report and Accounts are published, they will tell a gloomy story. Whatever the truth of the matter, Westons' share price has fallen 45

by 15% over the last four months. Max had never had any intention of considering a merger and decided it would be more appropriate to launch a takeover bid. He had easily persuaded the board of Mytre UK to agree and the parent company in the USA had raised no objections. 50

Max knew that, to start with, Westons' shares could be bought up easily and fairly cheaply. However, he recognised that as soon as speculators suspected that a takeover might be happening, the price of the shares would not remain the same for long. A considerable amount of cash would be necessary to buy the shares. Mytre UK's reserves of cash would be run down but Max intended to replenish them by the subsequent closure and liquidation of at least one of the small assembly plants Mytre owns. Max certainly intended to close the one in South Wales which makes calculators and small electronic toys for the discount end of the market. It has, for the past two years, been finding it difficult to compete with other businesses in the Far East. 55 60

Max had little trouble convincing the board that closure of the Welsh plant was the correct course of action to support the takeover. "Let's be honest, this has been on the cards for ages," he said at the last meeting. A few of the directors looked a bit surprised but Tony English, the Human Resource Director, had been the only one to actually raise any objections. Max, however, quickly closed the discussion down. "We're not a charity and we must maximise our profits at every opportunity," he said to him. "This takeover will help us reach our strategic objective of profit maximisation. Start looking at the redundancy issues straight away; I want some figures on how much it'll cost." Then he added pointedly, "And, I want it done with as little fuss and publicity as possible. Is there some high profile community activity that we can do at short notice that'll raise our profile as a caring company? Anyone got any bright ideas before we move on to the next item on the agenda, which is the construction of our new company headquarters?" 65 70 75