



Mock Exam 2

CANDIDATE
NAME

CENTRE
NUMBER

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CANDIDATE
NUMBER

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BUSINESS

9609

Paper 4 Case Study

1 hours 15 minutes

You must answer on the question paper.

You will need: Insert (enclosed)

INSTRUCTIONS

- Section A: answer **all** questions.
- Section B: answer **one** question.
- Use a black or dark blue pen.
- Write your name, centre number and candidate number in the boxes at the top of the page.
- Write your answer to each question in the space provided.
- Do **not** use an erasable pen or correction fluid.
- Do **not** write on any bar codes.
- You may use an HB pencil for any diagrams, graphs or rough working.

INFORMATION

- The total mark for this paper is 40.
- The number of marks for each question or part question is shown in brackets [].
- The insert contains the case study.

Pan-Global Petroleum Company (PGP)

PGP is a large oil and gas business with operations in all sectors of the oil and gas industry from exploration to retailing. It operates in over 50 countries and its Head Office is in country X. PGP was taken into state ownership in 1995.

Timeline of RF's strategy for growth

- | | | |
|-------------|---|---------------------|
| 2011 | PGP is privatised. Now operates as a public limited company. | (Appendix 1) |
| 2014 | Oil prices began to fall impacting PGP's profits. | (Appendix 2) |
| 2016 | PGP management undertakes a delaying programme. | (Appendix 3) |
| 2018 | Shareholders show concern at the annual general meeting (AGM) | (Appendix 4) |

Developing a business strategy

The directors are discussing a new business strategy based on investing in renewable energy research to turn around company fortunes. These energy sources will become more competitive as governments increase taxes on non-renewable fossil fuels. However, further falls in world price of oil might make renewable energy sources uneconomic.

PGP management has adopted the following mission and aims as the basis of a business strategy.

Mission

Profitability through sustainability

Aims

- develop business options for farming the land
- identify market opportunities
- develop core competencies
- operate efficiently within a dynamic environment
- choose appropriate finance

PGP would now like advice on which approaches they should use to develop a new business strategy.

Appendix 1

- Privatisation and incorporation of the business impacted all stakeholder groups.
- The company has published its recent social audit. See information in Table 1.
- PGP is considering the option of investigating renewable energy sources to protect PGP from unforeseen changes in demand for oil and gas products.
- Governments have also started to subsidise renewable energy.

Table 1: Significant changes since PGP's privatisation

	State owned PGP 2010	Privatised PGP 2017
Total employees	97 000	82 000
Average pay of employees excluding managers	\$35 000	\$39 000
Average pay of managers	\$56 000	\$97 000
Operating profit	\$85m	\$382m
Number of suppliers of technical equipment	34	16
Average payment time to suppliers	3 months	2 months
Number of new oil based products developed	1	4
PGP retail fuel price as percentage of industry average (in country X)	98%	103%

Appendix 2

- Rapid fall in the global oil price after 2014 forced PGP to start thinking about cutting costs.
- PGP already outsourced some of its human resource management and accounting functions to suppliers in low cost countries.
- The Operations Director also outsourced transport of all refined fuels in country X using a specialist road transport company.
- PGP saved \$11m from the sale of distribution centre and trucks.

Appendix 3

- Under state ownership, a hierarchical organisational structure with a long chain of command was created. The centralised decision-making and bureaucratic style still exists in PGP.
- A further level of hierarchy was often added to share out the additional administrative workload.
- In some functional departments there are eight levels of hierarchy below the director of the department.
- Management conducted a delayering programme by removing two levels of hierarchy making substantial changes to the role of managers and other employees.

Appendix 4

- PGP's Finance Director undertakes a ratio analysis at the end of each financial year. He compares the performance of the business with energy industry averages.
- Ratios used in the 2018 comparison are given in Table 3.
- Stakeholders have shown concern about PGP's financial performance.
- Global demand for oil and gas is being affected by a general economic slowdown.
- PGP had excess oil refining capacity and high inventories due to inaccurate sales forecasts.

Table 3: Accounting data used to compare PGP performance with energy industry averages. 31 March 2018

	PGP	Industry average
Gearing ratio %	40	28
Return on Capital Employed %	9.2	14
Price earnings ratio	13.3	16
Dividend yield %	3%	3.5
Other data for PGP:		
Share price	\$20	-
Earnings per share (of which 40% is to be paid in dividends)	\$1.50	-

Q. Evaluate PGP's strategy for growth between 1995 and 2018. [20]

Q. Advise PGP on which approaches they should use to develop a new business strategy [20]