



# Mock Exam 1

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**BUSINESS**

Paper 4 Case Study

MARK SCHEME

Maximum Mark: 20

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**9609**

**40 minutes**

**Published**

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## **Paper 4- Nike**

### **Q - Evaluate Nike's strategy for growth between 2014 and 2018.**

A strategy for growth is a plan of how a business increases in size or scale. Nike grew in a number of different ways between 2014 and 2018.

Part of Nike's strategy was extensive focus on the marketing of the brand especially the 'Just do it' slogan, which sets it apart from its competitors. It invests heavily in advertisement campaigns, which increased over the years from 2014 to 2018 (as shown in Table 1). This proved beneficial as it showed an increase in revenue from 2014 to 2018. However, it is not certain that the marketing has brought about the increase in revenue, as the promotional elasticity of demand for Nike is unknown. It may be possible that the brand already has an inelastic demand for its products, lessening the need for any more promotions being carried out. This capital could be invested elsewhere such as developing new products or capturing untapped markets.

Although Nike has a greater global value than Adidas, the global clothing and footwear retail in 2017 was \$1696bn whereas Nike's sales only contributed to \$34bn in that year, which can be an indication of other competitors cannibalizing sales for Nike. So, in order to capture a mass market, Nike could have introduced products, which are affordable for all. These can be on the lower price point, to help gain a greater share of these global retail sales.

The HR strategy focused more on CSR by sourcing only through suppliers who are ethical, forbidding child labor and also not employing workers between 16 to 18 years of age in hazardous tasks or working at night. This brought positive publicity to the brand attracting more customers and increasing revenue. However, CSR activities significantly increase costs and would have been very expensive to implement. It can also be possible that customers do not care about CSR activities and want the product at the best possible deal, which can be practically difficult to provide. This is because Nike would have to charge a higher price to cover for the increase in costs due to CSR.

Quality is ensured to customers by being cautious when selecting suppliers and raw materials ensuring customers get the best for what they are paying. Nike has developed this as a USP for its brand, but in doing so incurred a large amount of capital and also time and expertise for the selection process. Although, such expertise would have increased intellectual capital for the business, it would also contribute to higher costs, hence a reduction in retained earnings.

Production is being carried out from outside the country claiming it is a low cost option. This however could be challenged by the fact that Nike would be incurring a high transport cost in importing and exporting its products

considering currency fluctuations and interest rates being different for each country.

Sales have been decreasing in China and other Asian countries due to claims about unfair labor practices and poor environmental regulations. This contradicted with its CSR initiative and brought negative publicity to Nike, making customers shift to competitors. It would have been difficult to gain back customers from competitors such as Adidas but the brand's 'Free RN Flyknit' shoe campaign may have persuaded customers to shift back and also helped get more ethically concerned customers.

As an overall strategy Nike has increased in size and scale and also in its profit margins until 2018. However, profitability after that cannot be certain as it is not known in which year Nike has faced the negative publicity in China and Asia making it difficult to comment on the decline in profits, if there were any. This can be important piece of information to conclude on the effectiveness of the overall growth strategy and whether the recovery actions taken were of any benefit for the business.



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