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**BUSINESS AND MANAGEMENT  
HIGHER LEVEL  
PAPER 1**

Thursday 18 November 2010 (afternoon)

2 hours 15 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 two questions.
- Section B: answer the compulsory question.
- Section C: answer the compulsory question.

## SECTION A

Answer **two** questions from this section.

1. (a) *N-Pharma* is now a successful business, but it initially struggled: “poor cash flow meant that the early years were financially challenging” (lines 6–7). Outline **two** problems that Yukio Nakamura’s business start-up may have faced. [4 marks]
- (b) Construct a fully labelled Ansoff matrix to show *N-Pharma*’s possible growth strategies. [4 marks]
- (c) Analyse the value of “social and environmental audits” (line 107) to *N-Pharma*. [7 marks]
  
2. (a) Define the following terms:
  - (i) *span of control* (line 60) [2 marks]
  - (ii) *empowerment* (line 64). [2 marks]
- (b) Comment on the effectiveness of Susan James’ leadership style in the Canadian subsidiary of *N-Pharma*. [4 marks]
- (c) Analyse the appropriateness of a cost-based pricing strategy (line 29) for *N-Pharma*’s drugs. [7 marks]
  
3. (a) Tadashi Agi has been appointed to the new post of “director of corporate social responsibility” (line 101). Outline **two** methods of recruitment that could have been used in this appointment. [4 marks]
- (b) Explain how Tadashi Agi could use new technologies within *N-Pharma* to communicate his ethical vision effectively with stakeholders (lines 105–106). [4 marks]
- (c) Tadashi Agi is now writing a “Charter of Ethics”, setting ethical objectives for *N-Pharma* (lines 102–103). Examine the reasons why organizations consider setting ethical objectives. [7 marks]

**SECTION B**

Answer *the compulsory* question from this section.

4. (a) Outline the importance of “negotiations and collective bargaining” (*line 68*) for employees **and** Susan James at the Canadian subsidiary. *[4 marks]*
- (b) Explain the importance of quality assurance and quality control (*lines 26–27*) for *N-Pharma*. *[4 marks]*
- (c) At the United States (USA) subsidiary of *N-Pharma* “Suzuko found that the financial information was not up-to-date” (*lines 114–115*). Explain why final accounts are important for the directors of *N-Pharma* **and** its shareholders. *[4 marks]*
- (d) *N-Pharma* subsidiaries have a double role: they “are responsible for both production and distribution of *N-Pharma* drugs in their national markets” (*lines 18–19*). Discuss the advantages **and** disadvantages of such a double role. *[8 marks]*

**Additional information**

*There is no additional information in this paper for Sections A and B.*

**SECTION C**

Answer *the compulsory question from this section.*

5. At their last meeting, the board of directors of *N-Pharma* decided that expansion outside Japan is essential. The Japanese pharmaceutical market has decreased over the last year. The recession is affecting incomes and spending patterns. Consequently drug prices in Japan are falling.

The directors are divided about the expansion. Some support market development in Europe (**Option 1**) and others prefer market penetration within China (**Option 2**).

The financial director and the director of corporate and social responsibility (CSR) favour market development in Europe through the acquisition of several small pharmaceutical companies (**Option 1(b)**), despite the European Union (EU) Commission having strict legislation on takeovers and mergers. They believe that strict quality controls in Europe will enable *N-Pharma* to establish brand loyalty. Competition from cheaper substitute drugs is of a lesser problem in the European market. The greater availability of well-qualified staff and the well-established distribution channels will reduce the time for product development by two years compared to an equivalent operation in an emerging market. The director of CSR argues passionately that locating *N-Pharma* in the European market will also ensure that *N-Pharma's* products are manufactured and distributed to the highest ethical standards.

The marketing manager supports the expansion in Beijing, China (**Option 2**). He reports high forecasted growth in emerging countries (*Item 1*). He said: “we’ve got to be in these markets, it’s a great opportunity”. He backs up his view with reference to reports by the business consultancy firms *McKinsey & Company* (*Item 1*) and *IMS* (*Item 2*). *McKinsey & Company* estimates that the value of the Chinese pharmaceutical market will grow from US\$15 billion in 2010 to US\$35 billion in 2015. The marketing manager argues that the growth in sales of generic drugs will continue as the recession develops (*Items 2 and 3*) and that competition will require *N-Pharma* to significantly reduce its costs.

Either expansion option will require some senior and middle managers to relocate to Europe or China. The human resources manager knows that some employees have mixed feelings about relocating and may resist a move.

*(This question continues on the following page)*

*(Question 5 continued)*

- (a) Identify **two** secondary sources of market research that the marketing manager could use to understand the Chinese pharmaceutical market. *[2 marks]*
  
- (b) With reference to Lewin's force field analysis model, explain why "some employees have mixed feelings about relocating and may resist a move" while others may be keen to relocate. *[7 marks]*
  
- (c) Analyse the European market and the Chinese market using a PEST analysis framework. *[9 marks]*
  
- (d) Applying your PEST analysis and using information contained in the case study and Items 1 to 4, recommend to the board of directors whether *N-Pharma* should develop the market within Europe through the acquisition of several small pharmaceutical companies (**Option 1(b)**), or penetrate the market within China (**Option 2**). *[12 marks]*

**Additional information is on the following pages.**

**Additional Information**

<b>Item 1: Global pharmaceutical sales growth %</b>			
	<b>2000</b>	<b>2009</b>	<b>2011 (forecast)</b>
United States (USA)	42	9	6
European Union (EU)	31	14	11
Japan	0	9	4
Emerging countries*	7	34	41
Rest of world	20	34	38

[Source: <http://biipharmablog.blogspot.com/>, 16 March 2009]

<b>Item 2: IMS consultancy report</b>
<p><i>IMS</i>, a consultancy firm in the pharmaceutical industry, forecasts that sales of drugs in the world’s emerging markets (such as Russia, China and India) will reach US\$300 billion by 2017. This is the equivalent of today’s sales in the European market and the US market combined. Sales of generic drugs are set to increase dramatically. Quality standards will improve as firms invest in new technologies.</p> <p>The top eight markets (the USA, Germany, France, the United Kingdom (UK), Canada, Italy, Spain and Japan) today account for 84% of total generic drug sales. Research and development (R&amp;D) costs are set to rise further as stricter drug legislation is adopted by the European Union Commission.</p>

<b>Item 3: Market investment summary</b>
<p><b>European Market: Investment advice:</b></p> <p>Sell shares 2009–2010            Keep shares 2010–2012            Buy shares 2012–2015</p> <p>“European markets are predicted to be badly affected by recessionary pressures until early 2011. Unemployment levels will continue to rise until the end of 2011. Firms will be looking to cut costs by increasing use of new technologies. Governments will come under increasing pressure and many will face elections. Extreme political pressures and social instability will negatively affect business markets. Concern about unemployment in domestic markets will lower demand for imports.”</p> <p><b>Chinese Market: Investment advice:</b></p> <p>Keep shares 2009–2010            Buy shares 2010–2015</p> <p>“The Chinese market is less affected by recessionary pressures than European and US markets. Rural unemployment levels will continue to rise until early 2011 as exports to overseas markets fall. As Chinese production tends to be labour intensive, firms will be looking to cut costs by reducing wages. Markets will remain highly state controlled, but <i>World Trade Organization (WTO)</i> membership will require the opening of domestic markets to foreign competition.”</p>

\* Emerging countries: China, Brazil, India, South Korea, Mexico, Turkey, Russia

**Item 4: Customer perception of pharmaceutical companies**

