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Pearson Edexcel
International Advanced Level

Centre Number | | | | | |

Candidate Number | | | | |

Business Studies

International Advanced Level
Unit 3: Strategic Business Decisions

Thursday 18 January 2018 – Afternoon
Time: 2 hours

Paper Reference
WBS03/01

You do not need any other materials.

Total Marks

Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- Answer **all** questions in Section A and Section B.
- Answer the questions in the spaces provided
  – *there may be more space than you need.*

Information

- The total mark for this paper is 80.
- The marks for **each** question are shown in brackets
  – *use this as a guide as to how much time to spend on each question.*
- In your responses, you should take particular care with punctuation and grammar, as well as the clarity of your expression.
- Calculators may be used.

Advice

- Read each question carefully before you start to answer it.
- Try to answer every question.
- Check your answers if you have time at the end.

Turn over ▶

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SECTION A

Answer ALL the questions in this section.

You should spend 60 minutes on this section.

Evidence A

Levi Strauss & Co.

Since 1873, *Levi Strauss & Co*. has been clothing the world in denim. *Levi Strauss & Co.* is one of the world's largest clothing companies and a global leader in jeans. The Levi's® brand is just part of our story. *Levi Strauss & Co.* brands also include Dockers®, Signature® and Denizen®. We have some 500 stores, and our clothes are available in 110 countries around the world.

The Levi's® brand is classic American style. Since the invention and patent of riveted clothing by Jacob Davis and company founder Levi Strauss in 1873, Levi's® jeans have become the most recognisable and imitated clothing in the world – capturing the imagination and loyalty of people for generations. And while the patent has long since expired, the Levi's® brand portfolio continues to evolve through a relentless pioneering and innovative spirit that is unparalleled in the clothing industry.

Since its introduction in 1986, the Dockers® brand has been producing high quality cotton clothing for men and women all over the world.

In 2003, *Levi Strauss & Co.* launched the Signature brand for consumers who want affordable, fashionable jeans and casual wear from a trusted company and name. The range includes a variety of products for men, women and children, designed with the high standards of construction and craftsmanship that make *Levi Strauss & Co*. famous.

In the summer of 2011, the Denizen® brand launched in the United States, providing great-fitting, great-looking, well-made jeans only sold through the discount retailer *Target*®.

(Source: adapted from © LEVI STRAUSS & CO)

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Evidence B

***Levi Strauss & Co*. Statement of Income, $ million**

Year ended November	2012	2015
Net revenue	4 610	4 494
Cost of goods sold	2 411	2 225
Gross profit	2 199	2 269

(Source: adapted from © issuu.com)

Evidence C

***Levi Strauss & Co*. Business Strategies for Growth**

Increase profitability

The greatest opportunities to increase profitability in our long-term growth strategies are found in certain key areas.

- Brands, such as our iconic 501® jeans and Dockers® trousers.
- Geographic, such as our key international markets of France, Germany, Mexico and the United Kingdom.
- Business segments, such as key global wholesale accounts.

Expand the reach of our brands and build a more balanced portfolio

We believe we have opportunities to grow our two largest brands through new or expanded product categories.

- Geographic markets, such as opportunities to expand in new and emerging markets, including China, India, Russia and Brazil.
- Consumer segments, such as providing a wider range of products including tops, outerwear and accessories, for female consumers.

Become a world-class multi-channel retailer

We will continue to expand our consumer reach by making investments in different channels of distribution.

- Levi's® own shops
- Levi's® ecommerce sites
- Franchisee operated shops
- Levi's® shops within other stores

Improve our cost structure

We will be reducing our controllable cost structure and improving efficiency in:

- product development
- outsourcing
- supply chain and distribution networks.

(Source: adapted from © LEVI STRAUSS & CO)

1 (a) What is meant by the term brand? (Evidence C, line 5)

(2)

(b) What is meant by the term investments? (Evidence C, line 17)

(2)

(Total for Question 1 = 4 marks)

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2 *Levi Strauss & Co.* has strategies in place for growth. (Evidence C)

Explain **two** positive effects of growth for a business such as *Levi Strauss & Co.*

(Total for Question 2 = 6 marks)

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3 Using Evidence B, analyse what has happened to the profitability of *Levi Strauss & Co.* between 2012 and 2015.

(Total for Question 3 = 8 marks)

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QUESTION 4 BEGINS ON THE NEXT PAGE.

4 Levi's 501 jeans continue to have high and steady sales in many countries. Denizen jeans are a recent introduction, selling through one retailer in just one country.

Assess the usefulness of the Boston Matrix to the management at *Levi Strauss & Co.* when deciding on strategies for the future of its products.

(10)

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(Total for Question 4 = 10 marks)

5 Assess the extent to which *Levi Strauss & Co.*'s strategy of improving its cost structure will help its competitiveness. (Evidence C)

(12)

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(Total for Question 5 = 12 marks)

TOTAL FOR SECTION A = 40 MARKS

SECTION B

Answer ALL questions in this section.

You should spend 60 minutes on this section.

Evidence D

The global clothing industry is subject to intense pricing pressure

The clothing market is characterised by:
- low barriers to entry for both suppliers and sellers
- an increasing number of new competitors
- sourcing from suppliers located throughout the world
- trade liberalisation
- continuing movement of manufacturing to lower cost countries.

These factors have contributed to intense pricing pressure and uncertainty throughout the supply chain.

(Source: adapted from © LEVI STRAUSS & CO)

Evidence E

Supply chain for *Asda* jeans selling for $18.44 made by the *Sepal Group* in Bangladesh

Supply chain	Selling price per pair of jeans	Variable costs per pair of jeans
Sepal Group jeans manufacturer in Bangladesh	$7.28	$7.02
Li & Fung, Hong Kong-based shipping company, responsible for transporting jeans from Bangladesh to UK	$11.61	$0.58
Asda UK retailer	$18.44	$11.65

(Source: adapted from 2012 figures © Bloomberg L.P.)

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Evidence F

Global outlook of the denim jeans market

The global denim jeans market was valued at $58bn for the year 2014, and it continues to grow when compared to other clothing markets. This market is further classified into three major categories: mass market denim jeans, standard or economy jeans, and premium denim jeans. Geographically, North Americans have been the largest consumers of denim jeans followed by consumers in Western Europe, Japan, and Korea.

Premium priced denim jeans have the highest potential for growth. They account for roughly 26% of the overall jeans market and are also the fastest growing segment. Many premium denim companies in the market are focusing on opening more stores in developing countries, boosting the market to grow at a compound annual growth rate of over 8% until 2019.

(Source: adapted from © 2007–2016 Infiniti Research Limited)

Evidence G

Made in Bangladesh

Sourcing products in Bangladesh has suffered uncertainties – issues of sustainability, political upheaval and the treatment of workers have left the industry with a damaged reputation. However, advances in technology coupled with a new focus on social responsibility and continuing low costs are making the denim sourcing scene in Bangladesh increasingly appealing to all brands.

(Source: adapted from © 2002–2016 EMAP PUBLISHING LIMITED)

Evidence H

Worldwide denim cloth production

Due to fluctuating demand and an increasing switch to synthetic blends, global prices for pure cotton denim cloth are relatively weak. In the short term there will be a decline in denim production as inefficient factories in Europe, North America and Asia are closed. In the long term new production capacity will increase as new and efficient factories are opened in China, India, Turkey and Brazil.

The cyclical nature of the global denim business seems to indicate a cycle of approximately five years in length, with productive capacity being added and deleted as fashion and other factors increase and decrease demand for pure cotton denim cloth.

(Source: adapted from Denimhelp.com)

6 Using Evidence E, evaluate the implications of the contribution made at each stage of the supply chain for the owners of *Sepal Group*, *Li & Fung* and *Asda*.

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7 Assess the importance of external factors on the corporate strategies of Bangladeshi businesses involved in the production of denim cloth and denim jeans.

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(Total for Question 7 = 20 marks)

TOTAL FOR SECTION B = 40 MARKS
TOTAL FOR PAPER = 80 MARKS

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