



Qualification Programme

Module 4 Business Management

Pilot Examination Paper

Time Allowed	3 hours
Examination Assessment Allocation	
Section A – Multiple Choice Questions	20 Marks All FIFTEEN questions are compulsory
Section B – Written Questions	80 Marks All SIX questions are compulsory

Do not open this question paper until instructed by the supervisor.

<u>You should answer Section A – Multiple Choice Questions on the first page of the Script Booklet and answer Section B – Written Questions on the rest of the pages.</u>

This question paper must not be removed from the examination centre.

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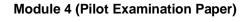
Module 4 - Business Management

This examination is divided into TWO sections.

- Section A (20%). This consists of <u>FIFTEEN compulsory multiple choice questions</u>. You should allocate approximately 36 minutes in total for Section A.
- Section B (80%). This consists of <u>SIX compulsory written questions</u>. You should allocate approximately 2 hours and 24 minutes in total for Section B.

Suggested time allocation (by marks):

Marks	Approximate time in minutes	
1	2	
2	3	
3	5	
4	7	
5	9	
6	11	
7	12	
8	14	
9	16	
10	18	
11	20	
12	21	
13	23	
14	25	
15	27	
16	16 29	
17	30	
18	32	
19	34	
20	36	





SECTION A – MULTIPLE CHOICE QUESTIONS (Total: 20 marks)

Answer **ALL** questions in this section. Choose the best answer for each question. Together they are worth 20% of the total marks for this examination.

To start a business in Hong Kong, one of the initial steps is to form a business entity. Identify

Questions 1 to 10 carry 1 mark each. (10 marks – approximately 18 minutes)

which of the following is the simplest type of a business entity.

	Α	Limited company.
	В	Sole proprietorship.
	С	Partnership.
	D	Joint venture.
2.	State which of the following skills relates to the manager's ability to understand abstract ideas	
	Α	Conceptual.
	В	Technical.
	С	Human.
	D	Mechanical.
3.		oly chain management ("SCM") aims to match supply, demand and profitability for ucts and services. Identify which of the following parties is excluded from the operations CM.

Manufacturer.

Customer.

Wholesaler.

None of the above.





Α

В

С

D

1.

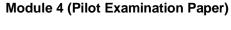
4.		ify which of the following is NOT a common quality of good services expected by omers.
	Α	Relevancy.
	В	Reliability.
	С	Responsiveness.
	D	Empathy.

- **5.** Financial management focuses on the fundamental question about the ways to obtain money and spend it in the best interests of the corporate owners. State which of the following is NOT a source to acquire long term finance.
 - A Issuing corporate debentures.
 - B Making sales of shares by issuing initial public offering.
 - C Raising a 5-year loan from a bank.
 - D Selling the trade receivables to financial institutions.
- **6.** Identify which of the following is the "direct" method under an extrinsic rewards scheme for employees.
 - A Holiday package.
 - B In-house training.
 - C Incentive share option.
 - D Family medical scheme.
- 7. Identify which of the following controls uses breakeven analysis as a tool to analyse information and data.
 - A Inventory control.
 - B Financial control.
 - C Production control.
 - D Quality control.

- **8.** State which of the following approaches is NOT used in marketing research as secondary data.
 - A Land search on line.
 - B Online survey.
 - C Business publication.
 - D News report.
- 9. Identify which of the following is NOT a protectionist measure against international trade.
 - A Import tariff.
 - B Import quota.
 - C Credit guarantee.
 - D Local content rule.
- **10.** Identify which of the following financial statements would be most relevant for investors to assess the financial performance of a company.
 - A Statement of financial position.
 - B Statement of profit or loss and other comprehensive income.
 - C Statement of cash flows.
 - D Statement of changes in equity.

Questions 11 to 15 carry 2 marks each. (10 marks – approximately 18 minutes)

- **11.** A new series of desserts will be promoted in the local market. To maximise the efficiency in reaching the different groups of potential customers, determine which of the following dimensions would be considered.
 - (1) Demographic dimension.
 - (2) Psychographic dimension.
 - (3) Geographic dimension.
 - (4) Biographic dimension.
 - A (1), (2) and (3) only.
 - B (1), (2) and (4) only.
 - C (2), (3) and (4) only.
 - D All of the above.
- **12.** Maintenance is one of the three phases in the employment cycle. This refers to the steps to be taken for ensuring that employees are satisfied and productive. Outline which of the following activities are related to the maintenance phase.
 - (1) Employment arrangements and remuneration.
 - (2) Training and development.
 - (3) Recognition and reward.
 - (4) Induction.
 - A (1), (2) and (3) only.
 - B (1), (2) and (4) only.
 - C (2), (3) and (4) only.
 - D All of the above.





- **13.** Effective organisational management is important for an organisation. SWOT analysis is one of the tools for the management to better understand both the internal and external factors for strategic planning. State which of the following factors would be considered as the "opportunities" of an organisation.
 - (1) It will be easier for the organisation to enter the potential market.
 - (2) The existing competition is fierce.
 - (3) The market demand is increasing.
 - (4) The management skills are strong.
 - A (1) and (3) only.
 - B (1) and (4) only.
 - C (2) and (3) only.
 - D (2) and (4) only.
- **14.** Identify which of the following are the most widely used management techniques in a production process to achieve higher quality standards.
 - (1) Total quality management.
 - (2) Quality function deployment.
 - (3) Statistical process control.
 - (4) Just in time inventory management.
 - A (1), (2) and (3) only.
 - B (1), (3) and (4) only.
 - C (2), (3) and (4) only.
 - D All of the above.



- **15.** State which of the following factors would be considered when a company conducts international business.
 - (1) Natural resources of the trading countries.
 - (2) Values and norms of the trading countries.
 - (3) Political issues of the trading countries.
 - (4) Religious beliefs and ethical systems of the trading countries.
 - A (1), (2) and (3) only.
 - B (1), (3) and (4) only.
 - C (2), (3) and (4) only.
 - D All of the above.

* * * END OF SECTION A * * *



<u>SECTION B – WRITTEN QUESTIONS</u> (Total: 80 marks)

Answer **ALL** questions in this section. Marks are indicated at the end of each question. Together they are worth 80% of the total marks for this examination.

Question 1 (10 marks – approximately 18 minutes)

NC Computer Solutions Company Limited ("NC Limited") is an information technology services and solutions provider in Hong Kong. The mission of NC Limited is to provide quality services and solutions to local companies. In order to achieve success in the industry, NC Limited is always eager to employ skillful professionals dedicated to providing the highest quality services.

Required:

- (a) Illustrate TWO sources of external recruitment with explanations for NC Limited.

 (4 marks)
- (b) Based on the concept of service quality, list and explain THREE reasons why quality is essential in a service organisation such as NC Limited.

 (6 marks)

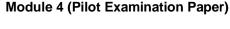
Question 2 (10 marks – approximately 18 minutes)

A local organisation namely Mac Forever Company Limited ("Mac Limited") is considering expanding its business into international markets. To tackle the challenges such as different business environments and regulations, Mac Limited may adjust its operations by using different forms of business strategies.

Required:

- (a) List and explain THREE drivers in expanding Mac Limited's business internationally.
 (6 marks)
- (b) Summarise and explain TWO common forms of international business strategies that may be applicable to Mac Limited.

(4 marks)





Question 3 (10 marks – approximately 18 minutes)

Como House Foods ("CHF") operates Japanese fast food restaurant chains which sell sushi and beef bowls in Japan. CHF is exploring the opportunity to extend its business in Hong Kong. The managing director of CHF would like to apply Michael Porter's five-force framework to understand the level of competition in the food and beverage industry as well as the profitability potential of CHF in Hong Kong.

Required:

Illustrate the level of competition and profitability potential of CHF in operating Japanese fast food restaurant chains in Hong Kong with Michael Porter's five-force framework.

(10 marks)

Question 4 (10 marks – approximately 18 minutes)

Alpha Company is a watch manufacturing and trading company in Hong Kong. The company would like to improve its financial performance and notices that financial management can help the management to make better decisions in order to maximise the value of the company.

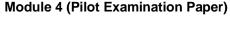
Required:

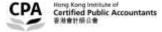
(a) Explain the meaning of financial management.

(2 marks)

(b) Describe the FOUR main functions of financial management for Alpha Company.

(8 marks)





Question 5 (20 marks – approximately 36 minutes)

Cedanso Company Limited ("Cedanso") is a family-owned leather garment trading company in Hong Kong with 100 employees. The main business of Cedanso is to import leather garments from China and Bangladesh and then export them to European countries. As a family business, Cedanso strives to maintain the business in the market and hopes to expand the European market so that profit can be enhanced, and then strengthen the reputation and brand name.

Within Cedanso, the accounting department provides bookkeeping services and maintains the accounting system. In the accounting department, there are only three employees, including one supervisor, Joyce, one experienced accounting assistant, Mandy and a newly recruited accounting assistant, Helen. The accounting assistants are responsible for recording daily transactions and handling trade receivables and payables.

In the routine checking, Joyce found two errors as follows:

(1) A purchase invoice was paid twice

At the invoice due date, Mandy issued a payment cheque to a supplier, Pro-act Garment Company as usual. However, two days later, Helen was phoned by the supplier who urged settlement. Helen checked the accounting system and found that the payment had not been settled. Therefore, another cheque for the same invoice was issued again.

In practice, the accounting assistants prepare cheques automatically for signature at the due date. No other document such as cheque register is kept to record the issuing of cheques. When the signed cheques are ready, usually several days after, they send those cheques to the suppliers and update the accounting system.

(2) A supplier invoice was overdue

Helen admitted that she had not inputted the due date of a supplier invoice in the accounting system as no one told her to do so. Meanwhile, Mandy mentioned that she was overloaded in handling both trade receivables and payables and thus she had no time to check the work of Helen.

Required:

(a) Identify and explain THREE business objectives of Cedanso.

(6 marks)

(b) Describe the importance of control for the accounting department of Cedanso.

(2 marks)

(c) Analyse and explain FOUR control weaknesses in the payment process of Cedanso.

(4 marks)

(d) Determine how to enhance the control procedures of the payment process in Cedanso.

(8 marks)



Question 6 (20 marks – approximately 36 minutes)

Carling Company Limited ("CCL") is a local business wear manufacturing and retailing company. After several years of operation, CCL owns one production line in mainland China and four retail outlets located in Central, Tsim Sha Tsui, Diamond Hill and Tuen Mun.

In the past three years, the revenue from business wear has dropped significantly by nearly 50%. CCL has tried to place additional advertisements on television and in magazines to revive sales. However, the revenue still fell. Due to the continuous shrinking of sales, CCL introduced a new series of trendy clothes for women last year. The current year revenue generated from the new product increases by 300% compared with that of last year.

A recent market survey also indicates that the demand for business wear is saturated and a further decrease in demand is expected in the coming decade. In contrast to business wear, the demand for trendy clothes especially for women will increase constantly. The owner of CCL believes that the life cycle of business wear is at the stage of decline and the demand for trendy clothes is increasing.

Required:

(a) Define operations management. Identify and explain THREE elements involved in the products making process in CCL.

(7 marks)

(b) Define marketing mix. Justify your analysis for the two products (i.e. business wear and trendy clothes) of CCL by applying key marketing mix elements.

(13 marks)

* * * END OF EXAMINATION PAPER * * *



Module 4 Business Management

Answers

The suggested answers are longer than what candidates are expected to give in the examination. The purpose of the suggested answers is meant to help candidates in their revision and learning. The suggested answers may not contain all the correct points and candidates should note that credit will be awarded for valid answers which may not fully covered in the suggested answers.

SECTION A – MULTIPLE CHOICE QUESTIONS (Total: 20 marks)

Questions	Answers	Marks allocation
1.	В	1
2.	А	1
3.	D	1
4.	А	1
5.	D	1
6.	С	1
7.	В	1
8.	В	1
9.	С	1
10.	В	1
11.	А	2
12.	С	2
13.	А	2
14.	С	2
15.	D	2

* * * END OF SECTION A * * *



SECTION B – WRITTEN QUESTIONS (Total: 80 marks)

Answer 1(a)

Sources of external recruitment for NC Limited may include:

Advertisements

Advertisements in newspapers and magazines are a widely used source of external recruitment. This method can increase the diversity and mix of employees with an ability to target professionals of information technology ("IT").

School placements

Recruiting fresh graduates can provide a large number of potential candidates. This method may mainly recruit young people for entry-level positions.

Employees referrals

Candidates are referred by current employees. Employees are familiar with NC Limited and the candidates, and therefore they would be able to recommend suitable candidates. This method can show employees' loyalty to the company.

Placement agencies

The agencies may have wide contacts and can screen the candidates first for NC Limited. This method is relatively expensive, but can save time for employers.

Websites

Many recruitment portals dedicated to job searching are available on the Internet. The search engine for job seekers can match suitable talents to job vacancies. It is a cost-effective and convenient recruitment platform.

Professional associations

Professional associations have publications announcing vacancies and recruitment details. This method could target at the IT industry and its members.

Job fairs

A job fair is a recruiting method engaged in by NC Limited or a group of employers to attract a large number of applicants to one location for interviews.

Answer 1(b)

Quality is essential for a service organisation to be successful. The reasons include:

Increasing customer satisfaction

Customers are normally satisfied with high quality services and this may increase their loyalty in the provided services, which leads to higher profits for NC Limited.



Increasing market share

Good quality standard would implant in the mind of customers. Their word-of-mouth recommendation can promote businesses, which leads to higher market share.

Increasing returns to shareholders

Satisfactory response from customers would lead to increasing sales and profit, resulting in higher returns for shareholders.

• Reducing employee turnover

With increasing sales and higher profits, NC Limited would offer employees with better salary, bonuses and other benefits, thus reducing employee turnover.

Increasing efficiency

By providing quality service, NC Limited would not need to spend extra resources to compensate for customers' dissatisfaction. This would lead to higher productivity.

• Reducing effects of price competition

By providing high quality service, NC Limited would accomplish high productivity and cost efficiency. The price competition will therefore pose less threat to the company.

Reducing risk of business failures

Understanding the expectations and mindset of consumers can considerably reduce the risk of business failures and losses.

Answer 2(a)

The drivers are listed and explained as follows:

Revenue and profit growth

The downturn of consumer demand in domestic markets may prompt Mac Limited to enter into the international markets so as to sustain revenue and profit growth.

Increase in competitive advantage

Mac Limited with international presence would enhance its specific understanding of global markets through diversifying its customer base. This may increase its competitive advantage.

Risk reduction

Mac Limited may encounter the stage of overcapacity in the local markets. With international presence, the capacity can be more optimally utilised, so as to diversify such risk and enable to generate revenue to sustain the business.

Finding new talents and skills

Mac Limited with international presence would develop its talents and skills by working with its foreign partners. They would transfer such talents and skills to their host company.



Increase innovation

International presence would stimulate new product development by paying particular attention to local tastes, preferences and customs of the international customer base.

Cost savings

Lower production cost in foreign countries would be attractive for international growth.

Answer 2(b)

The forms of business strategies are summarised and explained as follows:

Exporting

It is the process of selling goods or services produced in home countries to foreign countries.

Licensing

Mac Limited, as the licensor, grants the licensees patent rights, trademark rights etc. The licensees produce the licensor's products and market these products in the assigned countries. The licensees usually pay the licensor fees and royalties relating to the sales volume of the products.

Franchising

Mac Limited (franchiser) grants other companies or individuals (franchisees) the rights to use its trademark and name, and produce and sell its goods and services. It is an efficient approach for Mac Limited to expand chain stores in foreign countries.

Alliances

Mac Limited and organisations sharing common goals and interests may form an alliance. They usually aim at reducing costs and improving customer services.

Joint ventures

Mac Limited and other international organisations join to form a new venture company. The international organisations have equity positions and take management decisions in the new venture company.

Mergers and acquisitions

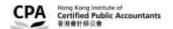
Mergers and acquisitions can also help Mac Limited to enter international markets by joining with or purchasing local company. A merger occurs when two companies are consolidated into one new company. An acquisition is when one company takes ownership of another company's assets.

Answer 3

The Michael Porter's five-force framework can be illustrated as follows:

Bargaining power of buyers

Buyers can be a source of power over CHF when there are many alternatives. They tend to drive prices down particularly where there are a large number of buyers' pressures. In



Hong Kong, there are many fast food chains and restaurants. Buyers usually have high bargaining power with increasing options and alternatives.

Rivalry among existing competitors

This refers to the intensity of competitive rivalry for market share among firms in food and beverage industry. The competition may pose a strong threat to CHF's profitability. The competitors providing Japanese fast food are numerous in Hong Kong. CHF has to find ways to secure sales by providing quality food and good customer service to buyers.

Bargaining power of suppliers

Suppliers can be a source of power over the firm when there are few substitutes. They tend to have a natural interest in raising their prices at the firm's expense. In Hong Kong, CHF is able to locate substitutes (i.e. suppliers) for Japanese fast food. The suppliers might not have significant influence on CHF as the bargaining power of suppliers is low.

Threat of new entrants

Profitable markets that yield high returns will attract new entrants and hence will increase the competition in the market which affects CHF's profitability. The fast food business is always attractive for investors due to the large demand from customers and the barrier to enter the business is low in Hong Kong. Therefore, the threat of entrants is high in the Hong Kong market.

Threat of substitutes

Potential factors for substitution include the buyer's propensity to substitute, relative price performance of substitute, a buyer switching costs and perceived level of product differentiation, etc. All these factors tend to direct customers' choices which will influence CHF's ability to achieve targeted sales and profitability. If the relative price of the substitute is low and quality is equal or higher compared to CHF's products, the threat of substitute products is high. The availability of substitutes from Japanese fast food might limit CHF's sales and profitability in Hong Kong.

Answer 4(a)

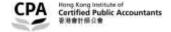
Financial management means planning, organising and controlling financial activities such as sourcing and utilising funds of the organisation. It mainly concerns the acquisition, financing, and management of assets to accomplish the goals of the organisation and to maximise the shareholders' wealth.

Answer 4(b)

The four main functions of financial management are:

Investment

It is related to selecting and investing in investment projects in order to maximise the shareholders' wealth. For examples, Alpha Company could do the investment in both non-current assets (i.e. capital budgeting) and / or current assets (i.e. working capital).



Finance

It is related to the raising of finance from various sources by considering the type, period and cost of financing as well as the returns for Alpha Company.

Liquidity

It is related to the management of current assets (i.e. working capital management) for the short-term survival of Alpha Company. A balance should be maintained between the liquidity and profitability of the company.

Profit distribution or retaining

It is related to profit accumulation (i.e. retained profits) and distribution (i.e. dividend). A balance should be maintained between the distribution of profit to shareholders and the retention of profits for expansion and other purposes of Alpha Company.

Answer 5(a)

Cedanso's business objectives are basically the goals and targets that Cedanso would like to achieve. In terms of a family-owned business, Cedanso's objectives are listed as follows:

Survival

Survival is one of the most important business objectives especially for those struggling in a highly competitive market. If Cedanso can survive, it also means that it would be able to earn a certain amount of profit and sustain itself in the market.

Profit maximisation

Profit maximisation is a common business objective in the private sector. The owners of Cedanso would try to generate financial returns as much as possible in order to maximise profit.

Business growth

Cedanso would try to achieve business growth by increasing market share in European countries and exploring other potential markets, remaining competitive and enjoying lower costs, etc. As such, Cedanso would try to dominate the market and avoid from fierce competition.

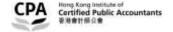
Reputation and brand

Apart from profit-making, Cedanso may have the objective to build its image or brand locally and in European countries. In today's business world, the value of an organisation is measured not only in terms of its profitability but also its reputation and brand.

Answer 5(b)

Control is important for the accounting department of Cedanso because:

 It helps the management and Joyce (i.e. the supervisor) to make sure that the operation and duties of the accounting department are met through the process of monitoring, comparing and correcting.



- It helps to promote employee empowerment. Joyce (i.e. the supervisor) may be resistant to giving power or authority to her subordinates as she is concerned about taking responsibility if her subordinates do something wrong. Under an effective control system, information and feedback about the performance of the two accounting assistants should be provided in order to minimise the possibility of these problems.
- Other valid point with explanation.

Answer 5(c)

The following control weaknesses are identified in the payment process of Cedanso.

Weakness 1: No segregation of duties between the two accounting assistants, as Mandy and Helen were able to issue cheques to the same supplier. Furthermore, Mandy and Helen are also responsible for handling the transactions of both trade receivables and payables.

Weakness 2: Insufficient documentary record in the payment process as no cheque register has been kept to record the issuing of cheques.

Weakness 3: Insufficient approval and controlling mechanism as Helen was able to issue the cheque to the supplier without the review and approval of her supervisor, Joyce.

Weakness 4: Insufficient training for the newly recruited accounting assistant, as Helen mentioned that no one had told her to input the due date of the supplier invoice in the accounting system.

Weakness 5: Lack of a standardised procedures manual as Helen would not know that the due date of the supplier's invoice has to be inputted into the accounting system if no one told her to do so.

Answer 5(d)

The following procedures are recommended for implementation.

Recommendation 1: The accounting duties of the two accounting assistants should be segregated. In general, one assistant is responsible for handling transactions of trade payables and the other is responsible for that of trade receivables. Although this segregation of duties may not prevent all errors and frauds, it would have the opportunity to reduce those issues from happening.

Recommendation 2: In an effective system, proper and sufficient documents should be kept to detect errors and mistakes. In this case, a document such as a cheque register should be kept and updated to minimise the risk of a duplicate cheque payment.

Recommendation 3: The supervisor should check the purchase invoices and payment vouchers before issuing the cheque. An appropriate authorisation and approval process should be implemented.



Recommendation 4: Helen, the accounting assistant, may not have sufficient experience and skills to perform the tasks properly or detect errors or fraud. Proper on-the-job training is essential for newly recruited employees to avoid errors. Cedanso should design and carry out a formal training plan for newly recruited staff.

Recommendation 5: A manual would provide uniformity to the work procedures and reduce training time for new employees. If one of the accounting assistants is on leave or not in the office, another accounting assistant would take up the jobs and continue to do the tasks correctly by referring to the procedures manual. This would ensure the continuity of department operations.

Answer 6(a)

Operations management relates to planning, execution and controlling processes which convert resources into finished goods in an efficient manner.

Elements of products making process in CCL are inputs, operations and outputs:

- Inputs in manufacturing can include people, technology, capital, equipment, materials, and information.
- Inputs in CCL refer to the materials such as fabrics and other resources which are necessary in production. These recourses include employees, equipment, technology and capital, etc.
- Operations refer to the manufacturing process which transforms resources into outputs.
- CCL produces products through mass production in mainland China, which allows CCL to produce large volumes of a standard product for a retail market.
- Output is defined as goods which are produced in a given period of time by an organisation.
- Outputs of CCL refer to the business wear and trendy clothes for women. They are the products after converting the resources into finished goods.

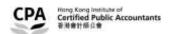
Answer 6(b)

Marketing mix is a useful tool for companies to consider the elements of 4 Ps before launching any new products or services to a market. The elements of 4 Ps are product, price, place and promotion.

Product

It relates to the decision of introducing products or services to the market in order to satisfy the customers' needs. The easiest way is to introduce goods or services into the market which are desired by customers.

Business wear: The revenue has declined for several years and the market demand is expected to decrease in the future. As this product is in the decline stage, CCL may phase out this product and focus on the new emerging products.



Trendy clothes: As a new product in the growth stage, both market demand and sales are increasing. CCL may expand the series of trendy clothes such as offering a new extension for men, increasing product varieties, and improving quality, in order to capture the increasing demand.

Price

It relates to a customer's willingness to pay a sum of money in exchange for the product. Numerous factors affect the decision of pricing such as production costs, customer perceptions, and competition.

Business wear: As this product has decreasing demand, CCL may offer significant discounts or price cutting to stimulate sales.

Trendy clothes: CCL may want to extend the market share with an aggressive approach. CCL may have a discounted pricing strategy to raise the public awareness of its products and attract potential customers to try the products.

Place

It relates to the distribution channels where the products can be delivered to customers. Key factors for consideration may include distribution costs, habits of customer, and intensity of competition.

Business wear: The decreasing demand and the proposed price cutting will definitely affect the profitability of the product. CCL has to control distribution costs and may close unprofitable retail outlet(s) (if any).

Trendy clothes: CCL may capture the increasing demand by increasing its distribution channels, e.g. a new retail outlet in Mong Kok, online shop, via e-commerce platforms and mobile apps.

Promotion

It relates to the activities or events promoting the products or services of a company to customers. One important goal of promotion is continuously communicating with and reminding the target groups about the product through various channels like television, newspapers, and social media.

Business wear: The market demand for the product is declining and the previous promoting activities are incapable for reviving sales. CCL may reduce the promotion budget of this product to a minimal level.

Trendy clothes: The strong market demand and customer needs will encourage customers to reach the products directly. CCL may reduce its presence in promotion and concentrate on building product awareness and interest in the market.

END OF EXAMINATION PAPER * * * *

