

Business decisions and strategy

Level: Pearson Edexcel Level 3 Advanced GCE

Subject: Business (9BS0)

Exam Board: Edexcel A level Business students for all boards

Topic: Business decisions and strategy

Type: Mark Scheme

To be used by all students preparing for Pearson Edexcel Level 3
Advanced GCE Business (9BS0)



Mark Scheme

Q1.

Question Number	Indicative content	Mark
	<p>Knowledge 2, Application 2, Analysis 3, Evaluation 3</p> <p>Indicative content</p> <ul style="list-style-type: none">• Knowledge of Porter’s five forces: rivalry amongst existing competitors, threat of substitutes, potential new entrants, bargaining power of suppliers <p>Significance of bargaining power of buyers:</p> <ul style="list-style-type: none">• Consumers have a wide choice of budget airlines, such as Ryanair. Consequently, consumers can switch to easyJet’s rivals if they charge lower prices• Consumers have alternatives to air travel such as road, rail and ferry, which may affect easyJet’s ability to retain customers• Consumers can share their bad experiences on social media, resulting in widespread bad publicity <p><i>Possible counterbalance</i></p> <ul style="list-style-type: none">• Power of suppliers – for example fuel represents around a third of total costs, therefore budget airlines may suffer from lower profit margins• Existing competition such as Ryanair and Jet2, therefore easyJet may suffer from lower sales/fall in market share• Threat of new entrants e.g. “the rise of a new generation of budget airlines”, enabled by low barriers to entry <p><i>Potential judgement</i></p> <ul style="list-style-type: none">• Bargaining power of buyers is the most significant influence because consumer complaints can damage easyJet’s reputation, resulting in a loss of sales and market share• The changing nature of the airline market is making it more dynamic, with both existing rivals and new entrants. This could be the most significant, as it has provided buyers with more choice	<p>(10)</p>



EXAM PAPERS PRACTICE

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Level 1	1-2	Isolated elements of knowledge and understanding – recall based. Weak or no relevant application to business examples. Generic assertions may be presented.
Level 2	3-4	Elements of knowledge and understanding, which are applied to the business example. Chains of reasoning are presented, but may be assertions or incomplete. A generic or superficial assessment is presented.
Level 3	5-6	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. Analytical perspectives are presented, with developed chains of reasoning, showing cause(s) and/or effect(s). An attempt at an assessment is presented, using quantitative and qualitative information, though unlikely to show the significance of competing arguments.
Level 4	7-10	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. A coherent and logical chain of reasoning, showing cause(s) and/or effect(s). Assessment is balanced, wide ranging and well contextualised, using quantitative and qualitative information, and shows an awareness of competing arguments/factors leading to a supported judgement



Q2.

Question Number	Indicative content	Mark
	<p>Knowledge 2, Application 2, Analysis 4, Evaluation 4</p> <p>Indicative content</p> <ul style="list-style-type: none">• A socially responsible business considers business ethics as a key influence on its strategic decisions <p>Positive effects:</p> <ul style="list-style-type: none">• Warby Parker donates one pair of glasses to Sightsavers for every pair it sells – this may improve its reputation• Increased sales and brand loyalty may result from Warby Parker’s improved reputation• Warby Parker may also attract ethical investors and be viewed as a good company to work for by potential employees <p><i>Possible counterbalance</i></p> <ul style="list-style-type: none">• Potential trade-off between being ethical and profitable, because of the costs of producing a pair of glasses that yield no revenue i.e. giving away a pair of glasses for each one sold• Lower profit may reduce shareholders/owners returns <p><i>Potential judgement</i></p> <ul style="list-style-type: none">• Being socially responsible is a key USP for Warby Parker and differentiates it from its rivals. This could enable it to gain brand loyalty and further increase sales, resulting in greater profit• Customers may choose to purchase from Warby Parker because it offers lower prices, rather than because it is socially responsible. Lower prices may lead to smaller profit margins and reduced profits	<p>(12)</p>



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Q3.

Question Number	Indicative content
	<p>Knowledge 2, Application 2, Analysis 3, Evaluation 3</p> <p>Indicative content</p> <ul style="list-style-type: none">Organic growth occurs when a business expands internally and does not involve another business taking over or merging with it <p>Reasons for organic growth:</p> <ul style="list-style-type: none">Mumtaz Foods retains control especially as it is a family owned businessIt maintains its existing management/structure/cultureIt enables the business to plan for and control growth e.g. the decision to enter the ready meals and halal baby food market plus to open its own restaurants and factories <p><i>Possible counterbalance:</i></p> <ul style="list-style-type: none">Organic growth is slower e.g. Mumtaz Foods has existed since 1979 and has only gradually grown to its current sizeOrganic growth is limited, for example the business has only expanded in the Asian food marketLimited finance available to fund organic growth e.g. Mumtaz has only used internal finance <p><i>Potential judgement</i></p> <ul style="list-style-type: none">Organic growth is the right decision because it enables the business to maintain control, which is especially important because Mumtaz is a long established business that has always been owned by the Akbar familyOrganic growth is not the right decision because the business may have been slower than its competitors to grasp the opportunities offered by the growing ready meals market <p style="text-align: right;">(10)</p>



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Q4.

Question Number	Indicative content	Mark
	<p>Knowledge 2, Application 2, Analysis 4, Evaluation 4</p> <p>Indicative content</p> <ul style="list-style-type: none">Transformational leadership is the ability to implement a vision through radical policies and strategies to bring about a positive change <p>Reasons why:</p> <ul style="list-style-type: none">He has replaced several directors. This may have resulted in the introduction of new ideas, such as the 'I'm cheaper' campaignThe previous directors may have been resistant to his ideas and consequently made the implementation of his strategy to achieve his vision more difficultHe has sold off 140 convenience stores in order to focus on improving the performance of its supermarkets, which could have been met with resistance from employees and customers <p><i>Possible counterbalance</i></p> <ul style="list-style-type: none">Improved performance could be due to the recent rise in consumer confidence which meant that they had increased their spending at Morrisons which led to 0.6% increase in revenueConsumers could have greater disposable incomes because of continued low interest rates / lower energy costs leading to increased spending on groceries which has little to do with transformational leadership	
	<p><i>Potential judgement</i></p> <ul style="list-style-type: none">David Potts' transformational leadership has been responsible for the improved performance as he has recruited new directors who shared his vision which then brought about positive change to MorrisonsDavid Potts is a newly appointed leader, therefore it is too soon to make an effective judgement whether he has been transformational in the change process. The improvement to Morrisons' performance could be due to external factors such as greater disposable incomes.	(12)



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Q5.

Question Number	Answer	Mark
	<p style="text-align: center;">Knowledge 1, Application 3</p> <p>Quantitative skills assessed:</p> <p>QS1: calculate, use and understand ratios, averages and fractions</p> <p>QS2: calculate, use and understand percentages and percentage changes</p> <p>QS6: calculate investment appraisal outcomes and interpret results</p> <p>Knowledge: 1 mark for identifying the formula for calculating Average Rate of Return:</p> <p>average annual return/initial cost x 100 (can be implied)</p> <p>Application: up to 3 marks for</p> <ul style="list-style-type: none">• Total return = $216 - 4 = 212$• Average annual return = $212/2 = 106$• ARR = $106/4 \times 100 = 2650\%$ <p>NB: if the only answer given is 2650% award 4 marks</p>	(4)



Q6.

Question Number	Answer	Mark
	<p style="text-align: center;">Knowledge 1, Application 3</p> <p>Quantitative skills assessed:</p> <p>QS 1 calculate, use and understand ratios, averages and fractions</p> <p>Knowledge: 1 mark for understanding of the gearing ratio:</p> <p>Non-current liabilities/capital employed $\times 100$</p> <p>Application: up to 3 marks for</p> <ul style="list-style-type: none">• Calculation of 2020 capital employed: $2748 + 1899 = 4647$ (1)• Calculation of gearing for 2020: $2748/4647 \times 100 = 59.13\%$ (1)• Calculating the difference between 2019 and 2020 = $59.13\% - 45.67\% = 13.46\%$ (1) <p>NB: If the only answer given is 13.46% or 13.46 award 4 marks. If the answer given is 13.5% or 13.5 award 3 marks.</p>	(4)



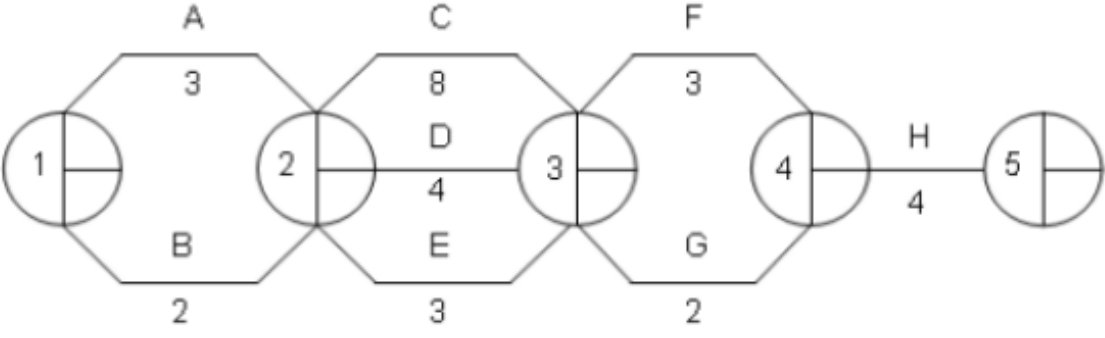
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Q7.

Question Number	Answer	Mark
	<p style="text-align: center;">Knowledge 1, Application 3</p> <p>Quantitative skill assessed: QS6: calculate investment appraisal outcomes and interpret results</p> <p>Knowledge: 1 mark for</p> <p>Payback is the length of time a project will take to make the amount of money spent on it</p> <p>Application: up to 3 marks for correct calculations:</p> <ul style="list-style-type: none">• Net cash-flow for 3 years is £600,000 (1)• Calculation of payback: 3 years plus $\frac{£100,000}{£200,000} \times 12 = 3 \text{ years and } 6 \text{ months}$ (1)• The difference is 6 months longer (1) <p>NB: If the only answer given is 6 months award 4 marks.</p>	(4)



Q8.

Question Number	Answer	Mark
	<p style="text-align: center;">Knowledge 1, Application 3</p> <p>Quantitative skills assessed:</p> <p>QS 3: construct and interpret a range of standard graphical forms</p> <p>QS 8: use and interpret quantitative and non quantitative information in order to make decisions</p> <p>Knowledge: 1 mark for implicit understanding of network diagrams E.g. at least 1 correct calculation of either EST or LFT</p> <p>Application: 3 marks for:</p>  <p>Circle 1: top 0, bottom 0 Circle 2: top 3, bottom 3 Circle 3: top 11, bottom 11 Circle 4: top 14, bottom 14 Circle 5: top 18, bottom 18 (to be entered on a diagram)</p> <p>1 mark for correct calculation of all ESTs for each node 1 mark for correct calculation of all LFTs for each node 1 mark for identification of critical path A, C, F and H</p>	(4)



Q9.

Question Number	Answer	Mark
	<p style="text-align: center;">Knowledge 1, Application 2, Analysis 1</p> <p>Quantitative skill assessed: QS1 Calculate, use and understand ratios, averages and fractions</p> <p>Knowledge: 1 mark for understanding of moving averages e.g. the formula totals to 3 months divided by 3</p> <p>Application: up to 2 marks for</p> <ul style="list-style-type: none">• March – May: $30+45+70 = 145/3 = 48.33\%$ (1)• June – August: $70+90+90 = 250/3 = 83.33\%$ (1) <p>Analysis: 1 mark for</p> <ul style="list-style-type: none">• difference $83.33 - 48.33 = 35\%$ (1) <p>NB: If the only answer given is 35% or 35 award 4 marks If candidate states -35% or -35 award 3 marks</p>	(4)



Q10.

Question Number	Answer	Mark
	<p style="text-align: center;">Knowledge 1, Application 2, Analysis 1</p> <p>Knowledge: 1 mark for understanding of crowdfunding e.g funding a business venture by raising small amounts of money from a large number of people, typically via the internet.</p> <p>Application: 2 marks for answers in the context of HAIRCVT, e.g</p> <ul style="list-style-type: none">• Access to 160,000 potential investors who are members of Crowdcube• Hopes to raise £200,000 in return for 10% of the shares. <p>Analysis: 1 mark for answers that explain the a benefit of using crowdfunding to raise finance e.g</p> <ul style="list-style-type: none">• A relatively cheap way to raise finance which is an important factor for a small business• An alternative to borrowing from banks who are often reluctant to lend to small businesses <p>Only have to give up a small proportion of shares so can retain control.</p>	(4)



Q11.

Question Number	Answer	Mark
	<p style="text-align: center;">Knowledge 1, Application 2, Analysis 1</p> <p>Knowledge: 1 mark for understanding of diseconomies of scale, e.g. a rise in average/unit costs experienced as a business grows in size.</p> <p>Application: 2 marks for answers in the context of Microsoft, e.g.</p> <ul style="list-style-type: none">• Microsoft is a large organisation with a range of different operations relating to software development• communication between computer software divisions and phone software divisions becomes more difficult as the business grows <p>Analysis: 1 mark for answers that explain a reason/cause of diseconomies of scale, e.g.</p> <ul style="list-style-type: none">• therefore increased mistakes are more likely between departments working on different areas of software, which will raise average costs.	(4)



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Q12.

Question Number	Indicative content	Mark																														
	<p>Knowledge 4, Application 4, Analysis 6, Evaluation 6</p> <p>Marks for application and analysis include up to 6 marks for quantitative skills</p> <p>Quantitative skills assessed:</p> <p>QS7: calculate investment appraisal outcomes and interpret results</p> <p>QS8: use and interpret quantitative and non-quantitative information in order to make decisions</p> <p>QS9: interpret, apply and analyse information in written, graphical and numerical form.</p> <ul style="list-style-type: none">• Payback = 3 years for Project A, 3 ½ years for Project B• NPVs = <table><thead><tr><th><u>Plan A</u></th><th><u>Plan B</u></th><th></th></tr></thead><tbody><tr><td>2727</td><td>10908</td><td></td></tr><tr><td>3304</td><td>12390</td><td></td></tr><tr><td>3755</td><td>15020</td><td></td></tr><tr><td>4098</td><td>17758</td><td></td></tr><tr><td>3105</td><td>17388</td><td></td></tr><tr><td>16989</td><td>73464</td><td>DCF</td></tr><tr><td></td><td></td><td>Capital</td></tr><tr><td>12000</td><td>60000</td><td>Cost</td></tr><tr><td><u>4989</u></td><td><u>13464</u></td><td>NPVs</td></tr></tbody></table>	<u>Plan A</u>	<u>Plan B</u>		2727	10908		3304	12390		3755	15020		4098	17758		3105	17388		16989	73464	DCF			Capital	12000	60000	Cost	<u>4989</u>	<u>13464</u>	NPVs	
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Plan A

- Pays back in 3 years not 3.5 years so if the money was borrowed then less interest payable, if retained profits were used then 6 months less opportunity cost of capital
- Beyond year 3, generates an extra £11,000 in profits or net cash-flow which might be used to pay for extra stock in order that NC can keep up with dynamic market changes
- Net cash-flows are starting to fall, indicated by £6,000 in year 4 compared to £5,000 in year 5 which may be a reflection of changing consumer tastes towards e-bikes which might not be easily repaired by Richard given the limitations of the premises
- ARR is 18.3% compared to 13.67% for Plan B
- Capital cost is £12,000 compared to £60,000 for Plan B representing a bigger opportunity cost

Plan B

- NPV is more significant over the 5 years than for Plan A. Plan B generates an NPV £13,464 compared to Plan A, which generates £4,989. Plan B is significantly above £0, which indicates a lower risk



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	<ul style="list-style-type: none">• Beyond year 3, generates an extra £41,000 net cash-flow which might be used to pay for extra stock in order that NC can keep up with dynamic market changes• Will provide larger premises overall as well as up to date servicing and repair equipment so that e-bikes can be future proofed• Perhaps the predicted net cash-flows are optimistic compared to Plan A as they assume larger selling space means selling more bikes and more expensive high-performance bikes and the servicing/repair of bikes. The more variables you predict, the more they are vulnerable to changes.	
	<p><i>Possible recommendations</i></p> <ul style="list-style-type: none">• Plan A in the immediate term as it is relatively inexpensive, less ambitious, has less damaging consequences for cash flow and surely it is better to walk before you run in business, especially given the economic climate and dynamics of the market.• Plan B over the longer term given the effects on profits overall, which may even provide sufficient funds for growth/expansion to open premises in another part of Birmingham – ‘sister shop’ in the north. <p>Examples of possible ‘MOPS’ recommendations</p> <ul style="list-style-type: none">• Market – the success of either option may very much depend on whether a new competitor enters the market and/or whether cycling continues to be popular for consumers• Objectives – the cheaper, Plan A may be preferred given that there is no guarantee that the extra sales from the extension will cover the extra £48,000 capital costs and still be profitable• Product – Plan B may very much depend on the availability of stock. If NC cannot access supplies of high performance e-bikes, then sales may suffer• Situation - Choice of option may depend very much on the business climate and support of the UK Government for e-bikes	<p>(20)</p>



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Level 2	5-8	Elements of knowledge and understanding, which are applied to the business example. Arguments and chains of reasoning are presented, but connections between cause(s) and/or consequence(s)/effect(s) are incomplete. Attempts to address the question. A comparison or judgement may be attempted, but it will not successfully show an awareness of the key features of business behaviour or business situation.
Level 3	9-14	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. Uses developed chains of reasoning, so that cause(s) and/or consequence(s)/effect(s) are complete, showing an understanding of the question. Arguments well developed. Quantitative and qualitative information are introduced in an attempt to support judgements, a partial awareness of the validity and/or significance of competing arguments and may lead to a conclusion.
Level 4	15-20	Accurate and thorough knowledge and understanding, supported throughout by use of relevant and effective use of the business behaviour/context. Uses well-developed and logical, coherent chains of reasoning, showing a range of cause(s) and/or effect(s). Arguments are fully developed. Quantitative and qualitative information are used well to support judgements. A full awareness of the validity and significance of competing arguments/factors, leading to balanced comparisons, judgements and an effective conclusion that proposes a solution and/or recommendations.



Q13.

Question Number	Indicative content	Mark
	<p>Knowledge 4, Application 4, Analysis 6, Evaluation 6</p> <p>Marks for application and analysis include up to 4 marks for quantitative skills</p> <p>Quantitative skills assessed:</p> <p>QS8: use and interpret quantitative and non-quantitative information in order to make decisions QS9: interpret, apply and analyse information in written, graphical and numerical form.</p> <ul style="list-style-type: none">Stakeholders are those people or groups who have an interest in the actions of a business. They include owners, employees, customers (spectators), suppliers, the local community, pressure groups (Sport England), local (Sandwell) and central government. <p>Directors' objectives of jobs and investment</p> <ul style="list-style-type: none">Government expects to receive a return on their investments, e.g. £112m towards the cost of the Alexandra Athletics Stadium redevelopmentGiven the overall cost of the Games (£778m capital cost alone), directors would prioritise the recovery of the capital costOpportunities to make profits from the Games to be regarded as successful, e.g. through hospitality and catering. Especially welcome given the economic downturn in the UKOpportunities for longer term returns from the continued use of venues such as the 18,000 capacity stadium	



Other stakeholder objectives

- It is a well-documented legacy of other international sporting events, e.g. the London Olympics, that by hosting events you encourage the regeneration of the local area through new housing and better infrastructure
- Birchfield Harriers and the local sports community will have improved facilities which should help improve the performance of and outcomes for the athletes.
- Local councillors may believe that athletes provide a role model to society to live healthily. This could have positive consequences for the local community and society as a whole
- The Games should represent an opportunity to upgrade the UK venues to make them fit for purpose and possibly host international events.



Possible recommendation

- Inevitably there will be conflicts between stakeholder groups. You might argue in this instance that the shareholders are the public sector organisations who have given a significant amount of funding towards the Games so there needs to be longer term benefits to the UK economy and Birmingham community
- It is important to keep key stakeholders interests in mind, otherwise the Games might not have taken place given a potential lack of funding, e.g. Government and local councils

Examples of possible 'MOPS' recommendations

Market – The Games may provide more opportunities for smaller businesses to thrive and contribute to the overall economy due to the extra visitors. This links to the Directors' objectives of jobs and investment

Objectives – The Games 'Vision and Mission' is clearly about meeting the needs of a range of stakeholders which is what enabled Birmingham and the UK to be chosen to host the Games in 2022

Product – Facilities will naturally be improved or newly built (Sandwell Aqua Centre) which will benefit athletes in the short term but the community of Sandwell in the longer term

Situation – the growth in obesity and sedentary lifestyles means the Games can be used to reduce this by highlighting the importance of local people participating in sports

(20)



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Q14.

Question Number	Indicative content	Mark
	<p style="text-align: center;">Knowledge 4, Application 4, Analysis 6, Evaluation 6</p> <p style="text-align: center;">Marks for application and analysis - include up to 4 marks</p> <p>QS8: use and interpret quantitative and non-quantitative information in order to make decisions</p> <p>QS9: interpret, apply and analyse information in written, graphical and numerical forms</p> <p>For developing a new smartwatch:</p> <ul style="list-style-type: none">• The Ansoff Matrix would classify this strategy as product development. There may be greater demand for smartwatches as consumers are losing interest in smart phones. Smartwatches are expected to make up 50% of wearable technology sales.• The wearable technology market is predicted to be worth \$34 billion in 2020. Consequently, there may be greater opportunities to increase sales and market share.• Tended Ltd is constantly innovating and taking risks. This may enable it to gain first mover advantage through developing a new improved smartwatch.• It is still a relatively small and agile company, this may enable it to respond quickly to the opportunities arising in the dynamic wearable technology market.• Based upon the decision tree, the smartwatch could generate revenue of £1million if it is a success.• However, there is an increased risk associated with developing new smartwatches especially as the market is dominated by powerful rivals such as Apple and Samsung.	



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For a marketing campaign:

- The net gain of the marketing campaign is estimated to be £1.42 million compared to £1.3 million for the smartwatch.
- Ansoff would classify this strategy as market penetration. This may be considered a safer option because Tended Ltd is focussing on its existing product and existing market.
- Tended Protect has a USP of a wearable personal safety device. This may enable it to gain a competitive advantage over its rivals such as Fitbit.
- Tended Ltd is growing rapidly – this may indicate the popularity of Tended Protect. A marketing campaign could increase market share through greater sales and wider distribution.
- However, the Tended Protect could be considered a niche market product. Consequently, there may be limited opportunities to increase sales and market share.



Possible recommendations

- Tended Ltd should choose the smartwatch option because it may offer the quickest way to increase market share. Being a small company it may be able to develop a new smartwatch quicker than larger less agile rivals such as Apple and Samsung.
- Tended Ltd should choose the marketing campaign because it has quickly established itself in the niche market of personal safety. It should focus on increasing its market share of this market, rather than try and compete with more powerful rivals such as Apple and Samsung.

Examples of possible 'MOPS' responses

Market - the technology wearables market is dynamic and rapidly growing. Technology giants such as Apple and Samsung may dominate, but there could be opportunities for smaller companies.

Objectives - Tended Ltd's aim is to increase its market share of the global wearable technology market. It has quickly established itself and is growing rapidly.

Product - The 'Tended Protect' has a USP of a wrist worn wearable safety device which uses artificial intelligence. Tended Ltd is an innovative business which employs highly skilled workers, this may enable it to quickly adapt and respond to market changes.

Situation - Tended Ltd is ambitious and expanding rapidly. It aims to exploit the opportunities offered by the dynamic technology wearables market. It has already established itself with the success of Tended Protect, a marketing campaign could help the future growth of this product and enable it to increase its market share.

(20)



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Level 2	5-8	Elements of knowledge and understanding, which are applied to the business example. Arguments and chains of reasoning are presented, but connections between cause(s) and/or consequence(s)/effect(s) are incomplete. Attempts to address the question. A comparison or judgement may be attempted, but it will not successfully show an awareness of the key features of business behaviour or business situation.
Level 3	9-14	Accurate knowledge and understanding, supported by relevant and effective use of the business behaviour/context. Uses developed chains of reasoning, so that cause(s) and/or consequence(s) are complete, showing an understanding of the question. Arguments are developed. Quantitative and/or qualitative information is introduced in an attempt to support judgements, a partial awareness of the validity and/or significance of competing arguments and may lead to a conclusion.
Level 4	15-20	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. Uses well-developed and logical, coherent chains of reasoning, showing a range of cause(s) and/or effect(s). Arguments are fully developed. Quantitative and qualitative information is/are used well to support judgements. A full awareness of the validity and significance of competing arguments/factors, leading to balanced comparisons, judgements and an effective conclusion that proposes a solution and/or recommendation(s).



Q15.

Question Number	Indicative content	Mark
	<p>Knowledge 4, Application 4, Analysis 6, Evaluation 6</p> <ul style="list-style-type: none">• Investment appraisal attempts to determine the value of capital expenditure projects. It enables businesses/investors to compare projects so that a business can expand effectively to best meet its aim and objectives, usually profit maximisation coupled with sales maximisation and efficiency, respectively.• In 2014-15, JLR broke its profits record with a £2.6 billion announcement implying that investments by the company more than pay for themselves. <p>Financial factors</p> <p>Payback for the Wolverhampton Project:</p> <p>Year 5 cumulative net cash-flows amount to £470m, leaving £30m to pay for the £500m investment. Year 6 = £120m new cash-flow, therefore this is £10m per month. So 3 months would = £30m.</p> <p>So Payback = total of 5 years and 3 months. This is 4 years 9 months earlier than the Castle Bromwich Project, which pays for itself in 10 years (estimate)</p> <ul style="list-style-type: none">• Payback does not, however, take into account the total profit generated over the lifetime of these two projects. Castle Bromwich, over a longer term – say 20 years – could be more profitable for JLR.	



Average Rate of Return (ARR) for the Wolverhampton Project:

- $ARR = \frac{\text{Average profit}}{\text{Cost of initial investment}} \times 100$
Therefore Total Profit = Total Net Cash Flows – Capital Costs/number of years
= £1100m – £500m = £600m
= £600m/10
= £60m

 $ARR = \frac{\text{Average profit}}{\text{Cost of initial investment}} \times 100$
 $\frac{£60m}{£500m} \times 100$
= 12%
- The rate of return of the £500m Land Rover Engine Manufacturing Centre in Wolverhampton is 12%, compared to the £400m Jaguar XF project in Castle Bromwich at 8%.
- However, differing initial investment amounts (XF = £400m; Engine Plant £500m) means that the opportunity cost of capital is greater for the Wolverhampton Project. This may have therefore required an extra share issue or more costly borrowings at first, which might reduce the returns on capital

(20)



EXAM PAPERS PRACTICE

Other Factors

- Negative externalities caused by each of the investments may differ. There may be more environmental damage/pollution, traffic congestion, disruption to other businesses in the Wolverhampton region compared simply modernising the Castle Bromwich project.
- Investing in the Jaguar XF plant may mean the purchase of high tech robotic equipment to ensure that Jaguar retains its position for quality car production in the prestige car market
- The recruitment and training of 1,400 new employees in Wolverhampton may boost the company's image and in turn sales
- More jobs may be created as a result of the Castle Bromwich project; 1,300 were created in Solihull alone in order to build just the SUV.
- May depend on the objectives and strategies of Jaguar – directors may want to reduce the sub-contracting of engine manufacturing in order to improve quality assurance of all its cars
- The XF investment may mean that Jaguar produces another car which is economic in terms of fuel economy and in terms of CO₂ emissions; significant sales factors given the lower total motoring costs to the consumer

Possible recommendations

- Engines produced in Wolverhampton may be for across the Jaguar range, therefore key to the production and sales of more cars in the longer term. Furthermore the non-financial benefits may prove to be more significant to the company's CSR stance.
- The all new XF may be a cash cow for Jaguar, which could therefore have a more positive immediate impact on sales revenue, cash flow and even market share; vital in a increasingly competitive global market.



EXAM PAPERS PRACTICE

NB: to access levels 3 and 4, students will need to demonstrate quantitative skills to support their judgements

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