

# 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><b>Knowledge 4, Application 4, Analysis 6, Evaluation 6</b></p> <p><b>Indicative content option 1</b></p> <ul style="list-style-type: none"><li>• Ansoff's Matrix is a decision making tool that can be used to assess the degree of risk involved in a chosen strategy in order to choose the best decision</li><li>• Diversifications is launching a new product in a new market</li><li>• Market penetration is a strategy of attempting to increase market share through increased sales of existing products in existing markets</li></ul> <p><b>Indicative content option 2</b></p> <ul style="list-style-type: none"><li>• The company has also adopted a strategy of diversification by producing specialist products for a range of different markets e.g upholstery; automotive seating; the fire services; the MOD, and the aerospace sector. This has enabled it to spread risk as it is no longer dependent on one market. As a result the company is in a stronger position as it is not over dependent upon one market</li><li>• It has also given the company more opportunities for expansion and increased sales. By expanding into more markets, the business may become more well known as well as increasing its sales revenue. This could result in increased profitability and an opportunity to grow the business</li></ul>	



*Potential recommendation*

- SKA Textiles should adopt a market penetration strategy due to the fact that their existing products are well known, they supply a wide range of customers and they have extensive knowledge of the ladies fashionwear market. It is the safer option
- SKA Textiles should adopt a diversification strategy due to the fact that selling to new markets provides more growth opportunities. It could enable them to enhance their reputation as 'an advanced textiles manufacturer' in a range of markets

**(20)**



## EXAM PAPERS PRACTICE

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**EXAM PAPERS PRACTICE**

Q2.

Question Number	Indicative content	Mark
	<p style="text-align: center;"><b>Knowledge 4, Application 4, Analysis 6, Evaluation 6</b></p> <p style="text-align: center;"><b>Marks for application and analysis include up to 6 marks for quantitative skills</b></p> <p>Quantitative skills assessed:  <b>QS1:</b> calculate, use and understand ratios, averages and fractions  <b>QS8:</b> use and interpret quantitative and non-quantitative information in order to make decisions</p> <p><b>Indicative content</b></p> <p>Answers to A &amp; C is the 8 period total / 8  for 2016 Q4 is <math>590/8 = 73.75</math>  for 2017 Q1 is <math>610/8 = 76.25</math></p> <p>Answers to B &amp; D is sales – four-quarter moving average.  for 2016 Q4 is <math>60-73.75 = -13.75</math>  for 2017 Q1 is <math>60 -76.25 = -16.25</math></p>	

	<p>Offer winter activity holidays</p> <ul style="list-style-type: none"> <li>• Live the Adventure Ltd is a seasonal business which, based on the data for 2015-2017, is clearly experiencing lower sales revenues in Q1 and Q4 when compared to Q2 and Q3, the spring and summer periods. This is causing the four quarter moving average sales to fall below what might otherwise be the case, e.g. by 18,750 for 2015 Q3.</li> <li>• The variation in winter quarters are both negative (2016 Q4 -13.75 and 2017 Q1 -16.25) so despite sales growth, sales in these quarters are below trend, therefore a better source of growth may be winter activity holidays in Europe.</li> <li>• Winter activity holidays may therefore provide a revenue stream to help even out cash inflows whilst at the same time enable more regular business activity</li> <li>• Permanent staff might therefore be better utilised given the work opportunities in Europe rather than experience under capacity or suffer because of a lack of capacity utilisation in Shropshire.</li> <li>• There may be less need for appointing and training temporary staff which might improve customer service and the businesses reputation and could lower costs</li> </ul>	
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### Expand its existing operations

- Live the Adventure is experiencing an increase in sales revenues when comparing each same quarter over the three year period which suggests that the business is succeeding; there may not be a need to smooth out incomes over the year. Winter months are compensated for in the summer months.
- Indeed the four-quarter moving averages are increasing over the periods 2015 Q3 from £61,250 through to £78,750 by 2017 Q2.
- The trend is upwards from 71.25 in 2016 Q3 to 73.75 in 2016 Q4 to 76.25 in 2017 Q1, which suggests that the overall trend for sales is increasing for existing operations.
- Staffing costs could actually increase as winter sports may require further training and increases in pay to attract and retain the right personnel.

### *Possible recommendation*

- The data only refers to sales not costs and therefore we do not know about profits (or losses)
- It very much depends on whether Live the Adventure can continue to expand and develop its business operations in Shropshire and Nepal. If so, then given the upward trend in sales from £61,250 to £78,750 it would appear to be sensible to focus on the business that has worked successfully since 1984.
- Diversification into a new market may spread risk as the sales data for UK and Nepal is past data and provides no guarantee for business growth.



	<p><b>Examples of possible 'MOPS' recommendations</b></p> <ul style="list-style-type: none"><li>• Market – By extending operations to offer winters holidays to Europe, Live the Adventure Ltd would probably grow more in the longer term given that there is a bigger new customer base and they could have several sites located across Europe, such at the Pyreness and Alps</li><li>• Objectives – Maximising revenues and minimising costs determine profitability and in turn income for investment and growth. Surely this would be more likely if LTA were to stick with what they know best and gain economies of scale to keep costs down and develop their loyal customer base in Shropshire</li><li>• Product – winter holidays are relatively expensive so may not be as affordable given the current economic climate</li><li>• Situation – Presently (having not left the EU) there are no barriers to entry or exit which should enable LTA to trade and gain a foothold in what could be a lucrative market given the growing levels of disposable incomes from former Soviet Union countries' populations of consumers, e.g. Latvians</li></ul>	<p>(20)</p>
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Source of data calculations for 4 Quarter Moving Averages					
Year and Quarter	Sales	4 Quarter Total	8 Period Total	4 Quarter Moving Average	Variation
2015 Q1	40				
2015 Q2	70				
		240			
2015 Q3	80		490	61.25	18.75
		250			
2015 Q4	50		510	63.75	-13.75
		260			
2016 Q1	50		530	66.25	-16.25
		270			
2016 Q2	80		550	68.75	11.25
		280			
2016 Q3	90		570	71.25	18.75
		290			
2016 Q4	60		590	73.75	-13.75
		300			



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2017 Q1	60		610	76.25	-16.25
		310			
2017 Q2	90		630	78.75	11.25
		320			
2017 Q3	100				
2017 Q4	70				

Q3.

Question Number	Indicative content	Mark
	<p><b>Knowledge 4, Application 4, Analysis 6, Evaluation 6</b></p> <p><b>Marks for application and analysis include up to 4 marks for quantitative skills</b></p> <p>Quantitative skills assessed:</p> <p><b>QS8:</b> use and interpret quantitative and non-quantitative information in order to make decisions <b>QS9:</b> interpret, apply and analyse information in written, graphical and numerical form.</p> <ul style="list-style-type: none"><li>• Number of covers is doubled to 48 which suggests that sales could double, but this assumes that the restaurant always operates at full capacity</li><li>• Renovation plan is £12,000 more expensive than external catering plan, but these additional costs may provide more revenue in the long run</li></ul>	



### **Upstairs renovation**

- **Strength:** Doing more of the same (providing meals in the same restaurant but to 24 more customers) should enable The WT to continue to offer the same product – 'plain and simple dining with a contemporary twist' which should help to ensure sales
- **Weakness:** More expensive (£12,000) and more immediate (July and August 2021) which may cause cash-flow problems in the short term. How long might it take to recover the £20,000 costs? If it involved a bank loan then this would add to costs and could cause cash-flow problems if the extra revenue did not cover repayments and interest.
- **Opportunity:** The redecoration might encourage more customers to make private party bookings with The WT and so boost sales. Private party bookings would also provide more opportunities to gain extra revenues from hire fees, increased sales of party food and alcohol for guests.
- **Threat:** There may be a delay to the furniture arriving in August which means that there would be a disruption of trade in the busier winter months which may reduce turnover significantly thus reducing profits.

### **External catering**

- **Strength:** Less disruptive as planned to take place during two weeks of December when the restaurant will close completely. So the loss of sales revenue may be lower when customers are otherwise busy Christmas shopping, etc.
- **Weakness:** Wonky Table staff may not have the experience of providing external catering. Extra staff



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	<p>training time and costs may have to be accommodated, especially if it involved providing specialist catering for conferences</p> <ul style="list-style-type: none"><li>• Opportunity: Spreads risk this option is an example of market development which may spread risk because you have extra new customers in a new market i.e. business customers from small other small businesses in Derby.</li><li>• Threat: Clients may want food and menus that are offered by competitors on offer which means that Holly and Andy may have to pay extra costs for additional food supplies, storage. This might mean the loss of economies of scale previously enjoyed through bulk purchases of ingredients.</li></ul>	
	<p><i>Possible recommendations</i></p>	
	<ul style="list-style-type: none"><li>• Renovation is a matter of market penetration since it is a strategy of The Wonky Table continuing to do what it has done in the last 10 years, but with the potential of twice as many customers. Providing external catering may involve more risk because it is at least a case of market development (new markets for existing products) if not diversification (new products like business catering to new customers)</li><li>• External catering may provide the opportunity for The Wonky Table to build on its reputation for providing high-quality food which is locally sourced to another market. This may be the case if the owners of local businesses had already experienced the unique and quality food as a restaurant customer. According to Porter this should provide competitive advantage through differentiation.</li></ul>	



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	<p>Examples of possible 'MOPS' recommendations</p> <ul style="list-style-type: none"><li>• <b>Market</b> – the success of option 2 depends if there are other external catering businesses in Derby. If there are competitors who have a more experience and established a good reputation, this might make option 1 the safer option</li><li>• <b>Objectives</b> – the cheaper, option 2 may be preferred given that there is no guarantee that the extra sales from the renovation will cover the extra £8,000 costs and still be profitable</li><li>• <b>Product</b> – External catering may cause The Wonky Table to order more food in a given time-period which may no longer be practically sourced locally which would cause the business to lose its USP</li><li>• <b>Situation</b> - Choice of option depends very much on the business climate and capabilities of Holly, Andy and key staff such as the Head Chef. If they feel that they can offer and have the right skills to do something different through external catering, this may prove more profitable in the longer term</li></ul>	<p>(20)</p>
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## EXAM PAPERS PRACTICE

Q4.

Question Number	Indicative content	Mark
	<p><b>Knowledge 4, Application 4, Analysis 6, Evaluation 6</b></p> <p><b>Option 1 – market penetration:</b></p> <ul style="list-style-type: none"><li>• Market penetration is selling existing products in an existing market, which is considered the least risky strategy by Ansoff.</li><li>• Buy it Direct is one of the largest online retailers in the UK. It may be able to gain purchasing and marketing economies of scale as a result of its size and lower unit costs.</li><li>• By continuing to operate online Buy it Direct can sell more of its existing range of household items and electrical goods, such as Bosch and Zanussi, to a wider range of its existing customers, therefore increasing revenue through higher sales volume.</li><li>• Buy it Direct has consistently developed new products, e.g. kitchen appliances, televisions and furniture. This proves that they have been successful and therefore there is little need to diversify.</li></ul> <p><b>Option 2 – diversification:</b></p> <ul style="list-style-type: none"><li>• Diversification (new products to a new market) is considered by Ansoff to be more risky than market penetration but potentially more rewarding because it offers greater opportunities to sell to a greater range of markets.</li><li>• Buy it Direct has expanded as a business by consistently offering new products e.g. it started by selling computers and electronics, before expanding into kitchen appliances, televisions and furniture, therefore it proves it can take these risks and succeed.</li><li>• By developing new products such as bathrooms, it is offering a wider range of products to its customers. This may lead to increased sales revenue overall.</li><li>• The UK Electrical Household Appliance market only grew by 0.5% as a result of a slowing housing market and wavering consumer confidence. Developing new products could enable Buy it Direct to enter markets with higher rates of sales growth.</li></ul>	



*Potential recommendation*

- Buy it Direct should choose market penetration of the UK Electrical Household Appliance market because it has significant competitive advantages compared to rivals, such as Currys. These include a wider range of products, competitive prices, high levels of customer service and the convenience of ordering online.
- Buy it Direct should choose diversification and enter new markets because it enables the business to not be dependent upon one product market. By offering new products such as bathrooms, this may also give Buy it Direct a USP compared to other online retailers. This could attract new customers and lead to an increase in sales revenue.

**MOPS**

- **Market**

The UK Household Electrical Appliance Sector is a mass market. It is dominated by e-commerce retailers such as Amazon and AO.com as well as high street retailers such as Currys/PC World.

- **Objectives**

Buy it Direct has set the objective of increasing its sales revenue.

- **Product**

Buy it direct sells a wide range of products. These include computers, electronics, domestic appliances, televisions and furniture. It is considering setting up a new division that sells bathrooms.

- **Situation**

Buy it Direct is a successful well established business that has been operating since 1999. It is a large business that employs 250 staff and is expanding.

(20)





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Q5.

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	<p data-bbox="352 508 1337 544" style="text-align: center;"><b>Knowledge 4, Application 4, Analysis 6, Evaluation 6</b></p> <p data-bbox="272 584 619 620"><b>Indicative content</b></p> <ul data-bbox="328 629 1299 707" style="list-style-type: none"><li>• Corporate objective is a goal that a business strives to achieve in order to meet its long term aim.</li></ul> <p data-bbox="272 792 1129 828"><b>New range of contact lenses – arguments for:</b></p> <ul data-bbox="328 837 1350 1240" style="list-style-type: none"><li>• Warby Parker already have a good reputation for selling glasses at low prices – this may enable them to persuade customers to also buy contact lenses</li><li>• Ansoff would classify this option as product development – it may enable Warby Parker to target new customers</li><li>• Innovation in a new optical product, such as contact lenses, may be a source of distinctive capability and as a result may enhance its appeal/reputation amongst high income customers</li></ul> <p data-bbox="272 1281 1307 1317"><b>Sell glasses in the low income market – arguments for:</b></p> <ul data-bbox="328 1326 1326 1774" style="list-style-type: none"><li>• Warby Parker already has a distinctive capability as a result of its association with Sightsavers plus the fact that it designs its own glasses</li><li>• The low income market has a size by volume of 4 billion people which therefore means more volume of sales potential. Ansoff would classify this option as market development</li><li>• Warby Parker’s approach could be very suitable for the low income market because of its low prices and online availability</li></ul>	



	<p><i>Possible recommendations</i></p> <ul style="list-style-type: none"><li>• The contact lens option could lead to a higher growth rate because Warby Parker has a trusted reputation for selling high quality products at a low price online, which it could apply to existing as well as new customers in the high income market</li><li>• The low income market could lead to a higher growth rate because it enables Warby Parker to target a market of 4 billion people that is currently not served by other large optical businesses. Selling online may be more accessible to customers in this market However VisionSpring are already well established in this market</li></ul>	<p>(20)</p>
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**Market** – the market for glasses is divided into high income (high profit margin, low volume) and low income (low profit margin, high volume)

**Objectives** – Warby Parker’s main objective is to grow the business

**Product** – Warby Parker has a USP of offering low priced designer glasses that can be ordered online as well as promoting itself as an ethical business

**Situation** – Warby Parker has spotted and exploited successfully a niche in the market. It has developed a good reputation in the high income market



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Q6.

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	<p data-bbox="384 499 1294 533"><b>Knowledge 4, Application 4, Analysis 6, Evaluation 6</b></p> <p data-bbox="308 566 1203 645"><b>Arguments for producing own label ready meals for supermarkets</b></p> <ul data-bbox="360 680 1369 1312" style="list-style-type: none"><li data-bbox="360 680 1369 757">• The ready meals market grew by 2% in volume and value in 2016</li><li data-bbox="360 768 1369 844">• Supermarket 'own label' ready meals have a combined market share of 68%, with Tesco owning 18%</li><li data-bbox="360 855 1369 889">• Mumtaz already supplies Tesco, Asda and Morrisons</li><li data-bbox="360 900 1369 976">• 'own label' ready meals can be used by supermarkets to meet a wide range of customer needs and specific tastes</li><li data-bbox="360 987 1369 1099">• Mumtaz has increased its production capacity enabling it to meet the potential increased demand from supermarkets</li><li data-bbox="360 1111 1369 1223">• Increased demand may enable the business to benefit from economies of scale and higher levels of capacity utilisation, resulting in lower unit costs</li><li data-bbox="360 1234 1369 1312">• Higher sales and lower unit costs may result in greater profitability and further expansion for Mumtaz Foods</li></ul>	



**Arguments for selling more Mumtaz premium brand name products**

- There is a trend amongst consumers to prefer premium ready meals
- It is predicted that future success may be for innovative new products – Mumtaz’s successful Halal baby food range proves that it is capable of developing successful new products
- Ansoff would classify this strategy as market penetration, which carries the least risk
- Porter would classify this strategy as ‘differentiation’ enabling Mumtaz to gain a competitive advantage through a USP of quality and authenticity
- ‘Own label’ relies heavily on price discounts and promotional offers – focusing on selling Mumtaz products would avoid this and enable the business to charge higher prices

*Possible recommendations*

- Mumtaz should choose the option of supermarket ‘own label’ ready meals because supermarkets own 68% of the market. Supermarkets have a greater distribution



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	<p>which might therefore enable Mumtaz to sell more of their products and enable them to achieve the aim of becoming the UK's market leader in Asian ready meals</p> <ul style="list-style-type: none"><li>• Mumtaz should choose to sell more Mumtaz premium brand name products because it is an established brand that is already growing rapidly in UK supermarkets and abroad. This strategy is less risky as it is not dependent on a few supermarkets and enables the business to maintain competitive advantage through differentiation</li></ul> <p><u>Example of possible 'MOPS' recommendations</u></p> <p><b>Market</b> – the market is the ready meals market. It is a growing market which is dominated by supermarket own brands. Consequently, in order to achieve the aim of market leader, focusing on producing 'own label' ready meals would appear to be the best option.</p> <p><b>Objectives</b> – Mumtaz aims to be the market leader in Asian ready meals. It already has an established reputation for premium products and supplies the big supermarkets (e.g. Tesco 18%) with its own products. Consequently, selling more Mumtaz premium brand products would be the best option.</p> <p><b>Product</b> – Mumtaz is innovative e.g. the new Halal baby food range. The introduction of new product ranges is an important factor in driving sales. Retailers offer different recipes which enable them to meet a wide range of consumer tastes. Consequently, the supermarket 'own label' option should be chosen because it offers Mumtaz more opportunities to sell a wider range of products enabling it to achieve its aim of becoming market leader.</p>	
	<p><b>Situation</b> – Mumtaz is an expanding business with the ready meals part of the Group growing by 15-20% a year. It is also exporting to over 40 countries and planning to manufacture ready meals in Asia. Consequently, the best option would be to focus on premium brand products so they could establish Mumtaz as a global brand and achieve its aim of becoming market leader.</p>	<p>(20)</p>



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Q7.

Question number	Indicative content	Mark
	<p><b>Knowledge 4, Application 4, Analysis 6, Evaluation 6</b></p> <p><b>Arguments for developing a new range of self-driving cars:</b></p> <ul style="list-style-type: none"><li>• The market for self-driving cars is predicted to grow – VW hope to exploit this through its partnership with Gett</li><li>• Consumers may prefer self-driving cars because of their greater convenience</li><li>• Diesel cars are becoming less popular – by shifting to self-driving cars VW is moving away from a declining market</li><li>• Ansoff would classify this strategy as new product development – VW may be able to gain a competitive advantage over its rivals</li></ul> <p><b>Arguments for improving productivity:</b></p> <ul style="list-style-type: none"><li>• Improving productivity may reduce unit costs by spreading the fixed costs of labour or machinery over more units</li><li>• Lower unit costs may enable VW to charge more competitive prices and/or increase profit margins</li><li>• Car production is capital intensive, improved productivity may be achieved by investment in new technology</li><li>• VW is cutting 30,000 jobs – so it may need to improve the labour productivity of its existing workforce in order to meet demand</li></ul>	



## EXAM PAPERS PRACTICE

	<p><i>Potential recommendation</i></p> <ul style="list-style-type: none"><li>• VW should choose to develop a new range of self-driving cars because it could help restore its brand image and attract more customers to increase its revenue more than the increase of costs</li><li>• VW should choose to improve its productivity because lowering unit costs is essential for improving profitability given the competitiveness of the car industry and the possible high numerical value of PED</li><li>• In the short term, improving productivity is more important because the business needs to quickly improve its profitability after the diesel emissions scandal. In the long term, developing a new range of self-driving cars is more important, due to the predicted changes in the car industry.</li></ul>	
	<p><u>Example of possible 'MOPS' recommendations</u></p> <p><b>Market</b> – the car market is dynamic e.g. the rising popularity of electric and self-driving cars. Volkswagen need to keep up with changing customer tastes. Consequently, self-driving cars should be developed to increase sales/market share in order to achieve its aim.</p> <p><b>Objectives</b> – Volkswagen is suffering from weak profitability and needs to become more efficient as a result. Consequently, it should improve productivity in the short term in order to achieve its aim.</p> <p><b>Product</b> – Volkswagen's current diesel cars are losing popularity. As such, it needs to be more innovative and develop cars that meet changing consumer tastes. Consequently, it should develop a new range of self-driving cars in order to achieve its aim.</p> <p><b>Situation</b> – Volkswagen 'needs a real shake-up' as it has high labour costs and a complex organizational structure. In the short term it needs to improve its productivity first in order to generate the profits required for developing the new self-driving cars.</p>	<p>(20)</p>



## EXAM PAPERS PRACTICE

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Q8.

Question Number	Indicative content	Mark
	<p><b>Knowledge 4, Application 4, Analysis 6, Evaluation 6</b></p> <ul style="list-style-type: none"><li>• The stakeholder approach considers that a business should consider all of its stakeholders in its business decisions/objectives</li><li>• The shareholder approach is that a business should focus purely on shareholder returns in its business decisions/objectives</li></ul> <p><b>Stakeholder approach – arguments for:</b></p> <ul style="list-style-type: none"><li>• Better image – positive publicity from reducing Unilever’s environmental impact and increasing its positive social impact. This could attract customers</li><li>• Attract ethical investors who would actively choose to buy shares in Unilever</li><li>• Improved relations with suppliers by paying fair prices and placing regular orders should ensure reliability of good quality raw materials</li></ul> <p><b>Shareholder approach – arguments for:</b></p> <ul style="list-style-type: none"><li>• Increased costs from the stakeholder approach could reduce profitability resulting in lower dividends and a falling share price</li><li>• Lack of focus on shareholder returns could lead to confusion and inefficiency</li><li>• Shareholders are the owners of the business and consequently their interests should be more important than other stakeholders</li></ul>	



## EXAM PAPERS PRACTICE

*Potential recommendation (Two examples)*

- The stakeholder approach should be adopted as the long term success of a business is dependant upon developing good relations with all of its stakeholders
- The shareholder approach should be adopted as the main purpose of a business is to generate good profits for its shareholders, without whom the business would not exist

**(20)**



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## EXAM PAPERS PRACTICE

Q9.

Question Number	Indicative content	Mark
	<p><b>Knowledge 4, Application 4, Analysis 6, Evaluation 6</b></p> <p><b>Marks for application and analysis include up to 4 marks for quantitative skills</b></p> <p>Quantitative skills assessed:</p> <p><b>QS8:</b> use and interpret quantitative and non-quantitative information in order to make decisions</p> <p><b>QS9:</b> interpret, apply and analyse information in written, graphical and numerical forms</p> <ul style="list-style-type: none"><li>• A rival is a strong competitor; a business which offers the same product in the same market.</li></ul> <p>Join forces</p> <ul style="list-style-type: none"><li>• Strength in numbers and size which might confer economies of scale, helping to reduce average costs and so enable cheaper subscriptions to customers than Netflix.</li><li>• Strength in numbers and size which might mean the pooling of resources, technology and know-how which can be quite critical in markets that are dynamic and costly to operate within, given the rate and expense of technological change.</li><li>• ITV and BBC already have BritBox in the US which could provide a template for success of joint venture in the UK.</li><li>• Could be expensive to set up so by sharing the costs, more likely to create a viable rival to Netflix and Amazon.</li><li>• ITV, Channel 4 and BBC have a reputation for and experience of providing popular 'must have' content/programmes, so the demand would be there already.</li></ul>	



## EXAM PAPERS PRACTICE

### Stand alone

- Strategically it might not be effective to combine with other PSB's given the failure to launch Kangaroo in 2007 which was blocked by the CMA, an evidence-based corporate influence.
- Ownership and objectives of the PSB's are different (BBC publically owned with welfare maximisation – including education - as its key purpose; ITV seeking profits for shareholders so would offer more blockbuster type films to encourage more subscribers) which may lead to organisational culture clashes and therefore diminishing returns/diseconomies.
- Longer term survival more likely as OTT video is expected to grow in terms of revenue by 7.4% (compared to a fall of 1.7% of traditional home TV and video over the same period).

### *Possible recommendation*

- Joint venture might give the capacity and finance required to fund associated VR developments which is expanding more significantly at 34.5% (Extract B) to ensure long term survival.
- If ITV go it alone, they are more likely to be able to fund any technological enhancements given the option of extending share ownership or issuing more share capital. BBC's ability to increase the licence fee to support any need to raise funds less likely given potential public outcry.





Examples of possible 'MOPS' recommendations

**Market** – The OTT market is increasingly highly competitive and therefore faced with competition from companies like Amazon and Netflix, by having strength in numbers, ITV might be more able to take advantage of economies of scale and so reduce its average costs to make it more competitive.

**Objectives** – Maximising revenues and minimising costs determine profitability, which is more important to commercial PSB's like Channel 4 and ITV. Therefore, by standing alone, the ability to keep production costs down and revenues from such things as advertising –still increasing at 8.9% (Extract D) should give ITV the opportunity to increase profits and provide investment funds.

**Product** – OTT is an expensive service to provide, Netflix has liabilities of more than \$30bn. Annual revenues do not cover this. So being highly geared can add to costs because of dividend and high interest payments. This may be mitigated through more advertising revenues from ITV's commercial operations.

**Situation** – Internet advertising is predicted to be worth much more than TV advertising in 2020 (£15,170m compared to £325m) so revenues may not be sufficient to cover costs and enable survival in a techno costly dynamic market.

(20)



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Q10.

Question Number	Indicative content	Mark
	<p style="text-align: center;"><b>Knowledge 4, Application 4, Analysis 6, Evaluation 6</b></p> <p><b>Indicative content</b></p> <ul style="list-style-type: none"><li>• Labour turnover measures the percentage of employees leaving a business over a period of time.</li></ul> <p><b>Arguments for an employee share ownership scheme:</b></p> <ul style="list-style-type: none"><li>• Employee share ownership is a financial incentive whereby companies give shares to their employees or sell them at rates below the market price.</li><li>• Sports Direct is changing its Human Resource strategies; employee share ownership may be one way to improve motivation because employees will now have a direct interest in the success of the business.</li><li>• Sports Direct is profitable - in 2018 it generated an operating profit of £179 million. Consequently, its employees would benefit from a share ownership scheme.</li><li>• Employees could have a direct interest in the financial performance of the business and consequently may be less likely to leave and more likely to accept current working practices.</li><li>• Sports Direct has ambitious expansion plans. It aims to be the 'Selfridges of Sport'. An employee share ownership scheme may encourage its workers to remain with the business, because they could directly benefit from its growth through increased dividend payments and a rising share price.</li><li>• However, the value of employee ownership may depend upon the number of shares each employee owns and the amount of dividends received.</li></ul>	



**Arguments for empowerment:**

- Empowerment is a non-financial method of motivation in which employees are given more control over their day to day work.
- Empowerment indicates that managers are now becoming less autocratic and consequently workers may feel more appreciated. This may improve morale, particularly at the Shirebrook warehouse, where workers are reported to fear their bosses.
- It could be argued that many of the jobs at Sports Direct either in the stores or the warehouse are boring and repetitive. Empowerment may enable the employees to gain more authority and be more interested in their work, resulting in lower labour turnover.
- Empowerment may be preferred by the management rather than employee share ownership to achieve the aim of reducing labour turnover, because the owners of Sports Direct would not have to share the company's profits with its employees.
- However, some employees may not want the increased responsibility of empowerment as they may prefer to be told to what to do by their supervisors.



*Potential recommendation*

- Sports Direct should choose employee share ownership because it may lead to improved employee commitment and loyalty, as workers now have a direct financial interest in the success of the business.
- Sports Direct should choose empowerment because it needs to improve its damaged reputation amongst its workers resulting from its current Human Resource strategies.

Examples of possible 'MOPS' responses

**Market** - Sports Direct is in the retail market. This market is experiencing rapid structural change. Improving labour turnover is important because it may enable Sports Direct to provide better customer service, which could provide a competitive advantage.

**Objectives** - Sports Direct aims to be the 'Selfridges of Sport'. Its acquisition of House of Fraser indicates that it is now targeting customers who visit department stores, who may have higher expectations of customer service. A more stable workforce with good product knowledge could develop good relations with customers and improve customer service.

**Product** - Sports Direct currently sells sportswear at competitive prices. It favours a 'cost leadership' strategy according to Porter's Strategic Matrix. Improving labour turnover could reduce recruitment and selection costs resulting in greater efficiency.

**Situation** - Sports Direct is successful and has ambitious expansion plans. However, it is currently suffering from bad publicity. Better treatment of its employees may lead to an improved reputation and help to reduce labour turnover in the future.

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Q11.

Question Number	Indicative content	Mark
	<p data-bbox="379 501 1305 539"><b>Knowledge 4, Application 4, Analysis 6, Evaluation 6</b></p> <p data-bbox="323 568 799 607"><b>Indicative content option 1</b></p> <ul data-bbox="371 645 1358 1794" style="list-style-type: none"><li data-bbox="371 645 1182 725">• Employee productivity measures the output per employee in a given time period</li><li data-bbox="371 763 1294 887">• A human resource strategy is the approach used by an organisation in order to achieve its human resource objectives</li><li data-bbox="371 925 1286 1173">• Google's recruitment policy is based upon recruiting intelligent and creative employees who might expect to be given the freedom to make their own decisions, resulting from empowerment. They may be motivated more by being allowed greater independence rather than through financial rewards</li><li data-bbox="371 1211 1358 1509">• Google's use of consultation and empowerment with opportunities for extensive interaction with senior executives and fellow workers may be an important motivator in terms of designing software. This may lead to better decision making and motivation as a result of working in teams plus recognition from senior managers, which are important motivators according to Mayo</li><li data-bbox="371 1547 1350 1794">• Higher levels of motivation resulting from the use of empowerment fulfils employees self-esteem needs according to Maslow. This may result in benefits such as improved quality and productivity. Google could gain from improved productivity, as fixed costs will be spread over more units, resulting in lower unit costs.</li></ul>	



### **Indicative content option 2**

Some employees may prefer the incentive of financial rewards such as bonus payments or profit share, because of the direct link to improved productivity. Financial rewards have a direct link to improved performance according to F.W Taylor and also as a means of recognition for good performance. This meets employees' self-esteem needs according to Maslow

- Senior managers may prefer using financial rewards as they can measure the performance of employees and identify the most productive workers. As well as rewarding the most productive workers financially, they can also be identified for promotion
- Financial rewards are important in order to attract intelligent and creative employees. Google is in a competitive market and in order to attract and retain the best staff away from rivals such as Microsoft and Facebook, they need to ensure that their employees enjoy high levels of pay and financial benefits.

#### *Potential recommendations*

- Empowerment may be more suitable due to the fact that Google employs intelligent, creative workers who would expect to be given the freedom to make their own decisions
- Financial rewards may be more suitable because money is an important motivator for most employees as it provides direct recognition for good performance
- Ideally Google should employ a combination of both strategies to improve the productivity of their employees

**(20)**





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Q12

Question Number	Indicative content	Mark
	<p><b>Knowledge 4, Application 4, Analysis 6, Evaluation 6</b></p> <ul style="list-style-type: none"><li>• Competitive advantage is a feature of a business and/or its products that enable it to compete effectively with rival producers/products.</li><li>• If the competitive advantage is based on cost, this may be down to achieving lower costs than competitors due to purchasing economies of scale of cocoa beans or sugar or mass marketing techniques, such as TV advertising</li><li>• The competitive advantage may be down to differentiation because of the quality of the chocolate. This may have been enabled by using high value ingredients, in batch production or made by hand by highly trained and skilled staff</li></ul> <p>Cost competitiveness</p> <ul style="list-style-type: none"><li>• Cadbury have adopted Coco Life instead of Fairtrade to save on costs.</li><li>• Cadbury have managed to seek out low cost production locations in emerging economies (offshoring in Argentina, Brazil and India) which has enabled price competitiveness for chocolate products like Dairy Milk.</li><li>• The outsourcing of the production of some chocolate bars to low cost labour countries such as Poland could prevent a rise in prices caused by higher costs of ingredients like sugar caused by the fall in the £ sterling</li><li>• Cadbury could use cost leadership pricing strategies to target market segments that are most price-sensitive, for example by selling multipacks of CDM aimed at families on a limited budget who buy from supermarkets</li><li>• Productivity gains could be achieved by using more automation thanks to the £75m investment in the modernisation at the Birmingham plant which might enable 24 hour production of products such as Crème Eggs in the run up to Easter.</li></ul>	



## EXAM PAPERS PRACTICE

	<p>Product differentiation</p> <ul style="list-style-type: none"><li>• Building a brand or reputation, which might be achieved through the promotion of the Cocoa Life partnership with farmers in Ghana. This CSR strategy should increase sales to the more discerning consumer, though it is less ethical than Fair Trade schemes</li><li>• Improve the quality of the chocolate by using more cocoa solids and cocoa butter so that customers who may be prepared to pay a premium price may help boost revenues above the current £4bn</li></ul>	
	<ul style="list-style-type: none"><li>• Ensuring that the chocolate is reliable in terms of taste, colour, safe to eat. The Cadbury salmonella outbreak in 2006 caused sales of certain chocolate products to fall by as much as 20%</li><li>• Enhance the core product through augmentation, such as the Cadbury World experience which serves to promote the image of Cadbury and its products to families and schools</li><li>• Advertising or promotion, such as by the £10m a year sponsorship of ITV's Coronation Street from 1997-2006. This had more impact than 30 second TV adverts</li></ul> <p><i>Possible recommendations</i></p> <ul style="list-style-type: none"><li>• Choice of strategy depends very much on the economic climate/ownership e.g. Mondelez International. Cost competitiveness strategies may be more successful as the market becomes more sensitive to rising prices due to a shortage of cocoa or as real incomes fall given lower than inflation pay increases</li><li>• As incomes in emerging economies like India rise, then product differentiation strategies may be more appropriate to attract those consumers who may buy less frequently the more indulgent type of chocolate rather than on the go snack bars. In which case Cadbury could improve its position in the global market by advertising itself as a lifestyle product, like Coca Cola.</li></ul>	



Examples of possible 'MOPS' recommendations

**Market** - The chocolate market is highly competitive, (oligopoly) dominated by the Mars and Nestle. Cadbury, as part of Mondelez International, might gain more sales in new markets like India and Brazil if it extended consumer choice in these countries through product differentiation

**Objectives** – Product differentiation is what extends consumer choice, particularly important for impulse buys like chocolate. So by having a range of products, total sales of Cadbury products like Flake, Twirl and CDM should add up to provide a competitive advantage given the higher probability of consumer sales over, say, Mars products.

**Product** - World commodity prices for things like cocoa are rising. So, cost competitiveness is critical to competitive advantage in order to offset these significant rising costs over rivals like Nestle.

**Situation** - Choice of strategy depends very much on the economic climate. Cost competitiveness strategies may be more successful as the market becomes more sensitive to rising prices due to a shortage of cocoa or as real incomes fall given lower than inflation pay increases

(20)



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Q13.

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	<p><b>Knowledge 4, Application 4, Analysis 6, Evaluation 6</b></p> <p><b>Marks for application and analysis include up to 2 marks for quantitative skills</b></p> <p>Quantitative skills assessed: <b>QS2:</b> calculate, use and understand percentages and percentages changes <b>QS8:</b> use and interpret quantitative and non-quantitative information in order to make decisions</p> <ul style="list-style-type: none"><li>• A takeover occurs when one business buys over half the shares in another business to gain control.</li></ul> <p>Thorntons</p> <ul style="list-style-type: none"><li>• Expediency, given access to more expertise, assets and resources to enable an increase in production in the UK without having to build new plant or recruit, employ and train new staff</li><li>• Thorntons was sold for £112m which ought to be affordable for FI given revenues of over £8bn (1.4% of 2015's turnover). This may then help to maximize shareholder wealth for FI.</li><li>• Strategically it would provide access to more sales for FI through high street stores, in a market with more potential for sales growth (worth £6bn)</li><li>• Could have been a useful longer term defensive strategy to reduce the number of luxury chocolate competitors in the UK so that it could increase the sales of FI</li><li>• However, Thorntons is struggling, possibly because retail sales in its stores are not covering costs and supermarket sales are competed against by other brands such as Nestle or Mars. A takeover would therefore not necessarily reverse these trends</li><li>• The cost of the Oltan Group may well have been greater, especially given the size of the business and its annual turnover of £600m</li></ul>	



## EXAM PAPERS PRACTICE

	<p>Oltan Group</p> <ul style="list-style-type: none"><li>• By purchasing the Oltan Group, FI may be able to reduce its costs as it is undertaking backward vertical integration with a supplier which removes an otherwise intermediary profit mark-up.</li><li>• Ownership of the Oltan Group, may provide access to the emerging Turkish market or other developing countries which have a tradition of importing hazelnuts from Oltan</li></ul>	
	<ul style="list-style-type: none"><li>• Longer term profits may be higher because hazelnuts are a key commodity for FI given that they are used in Nutella, Kinder Bueno and its luxury FI chocolates.</li><li>• Having ownership of a hazelnut processor may increase market dominance for FI for chocolates which contain nuts, especially if the plant was invested in to be able to process other nuts such as almonds or brazil nuts.</li><li>• However, FI may lack expertise or knowledge of the hazelnut production process. This may therefore lead to culture clashes resulting in diseconomies of scale</li></ul> <p><i>Possible recommendation</i></p> <ul style="list-style-type: none"><li>• It very much depends on the nature of the takeovers. If either were 'hostile' there may be resentment from other shareholders or employees which might make stakeholder relationships and operations more difficult. In which case the long term profitability for FI could suffer.</li><li>• If the Thorntons takeover had been 'friendly' because by FI taking over the UK company, jobs were saved or indeed the business, then this may be a better choice than the Oltan Group. Labour productivity may therefore improve and thus lead to better profits for FI in the short term</li></ul>	



Examples of possible 'MOPS' recommendations

**Market** – The chocolate market is highly competitive and therefore faced with competition from companies like Nestle and Mars, by having another manufacturing company in its portfolio, Ferrero International might be more able to take advantage of economies of scale and so reduce its average costs to make it more competitive

**Objectives** – Maximising revenues and minimising costs determine profitability. Therefore by taking over a supplier (Oltan Group) production costs should be reduced giving Ferrero International and opportunity to increase profits

**Product** – Hazlenuts are only one ingredient in a limited range of products, therefore unlike cocoa, the ability to save costs in this area might not be too significant to production costs as a whole

**Situation** – The chocolate market is becoming increasingly competitive on an international level (takeover of Cadburys by Kraft, then becoming Mondelez International) so it may be less risky and more profitable in the long run to purchase suppliers of ingredients, especially given the Oltan Group's monopoly position. Under Ferrero International, high prices could be charged to other chocolate manufacturers like Nestle to support Ferrero International's long-term profits.

**(20)**





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	0	A completely inaccurate response.
Level 1	1-4	Isolated elements of knowledge and understanding. Weak or no relevant application of business examples. An argument may be attempted, but will be generic and fail to connect cause(s) and/or consequence(s)/effect(s).
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 are well developed. Quantitative 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 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/or 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).



EXAM PAPERS PRACTICE

Q14.

Question Number	Answer	Mark
	<p style="text-align: center;"><b>Knowledge 1, Application 2, Analysis 1</b></p> <p><b>Knowledge: 1 mark for</b> understanding of mission statements e.g. a qualitative statement of an organisation's aims.</p> <p><b>Application: up to 2 marks for</b> answers in the context of Morrisons, e.g. refers to</p> <ul style="list-style-type: none"><li>• Human, ethical and ecological values</li><li>• We are one team</li><li>• Not just focused on numbers</li><li>• Competitors such as Lidl or Aldi</li></ul> <p><b>Analysis: 1 mark for</b> answers that explain the benefit of a mission statement to Morrisons e.g.</p> <ul style="list-style-type: none"><li>• Customers may agree with its values and consequently prefer to shop there rather than at competitors</li><li>• Motivational and sense of direction for employees.</li></ul>	<b>(4)</b>



Q15.

Question Number	Answer	Mark
	<p style="text-align: center;"><b>Knowledge 1, Application 2, Analysis 1</b></p> <p><b>Knowledge/understanding: 1 mark</b> for a knowledge of SWOT, e.g. strengths/internal weaknesses/external opportunities/external threats</p> <p>OR a benefit, e.g. enables the business to gain a better understanding of its internal strengths/internal weaknesses/external opportunities/external threats.</p> <p><b>Application: up to 2 marks</b> for:</p> <ul style="list-style-type: none"><li>• internal strength - Sports Direct generated sales revenue of £3.359.5 million in 2018.</li><li>• internal weakness - Sports Direct lost £85 million as a result of its investment in Debenhams.</li><li>• external opportunity - Buying House of Fraser provides an opportunity to transform it into 'the Harrods of the High Street'.</li><li>• external threat - Growth in online sales (growing at 10x the rate of physical store sales).</li></ul> <p><b>Analysis: 1 mark</b> for:</p> <ul style="list-style-type: none"><li>• SWOT analysis is key to planning Sports Direct's strategy for achieving its aim to be the 'Selfridges of Sport', because it can use its strengths to exploit opportunities.</li></ul>	<b>(4)</b>