Cambridge Assessment International Education

Cambridge International AS & A Level

BUSINESS **9609/33**

Paper 3 Case Study **May/June 2022**

MARK SCHEME

Maximum Mark: 100

Published

This mark scheme is published as an aid to teachers and candidates, to indicate the requirements of the examination. It shows the basis on which Examiners were instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began, which would have considered the acceptability of alternative answers.

Mark schemes should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

Cambridge International will not enter into discussions about these mark schemes.

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This document consists of **24** printed pages.

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Generic Marking Principles

These general marking principles must be applied by all examiners when marking candidate answers. They should be applied alongside the specific content of the mark scheme or generic level descriptors for a question. Each question paper and mark scheme will also comply with these marking principles.

GENERIC MARKING PRINCIPLE 1:

Marks must be awarded in line with:

- the specific content of the mark scheme or the generic level descriptors for the question
- the specific skills defined in the mark scheme or in the generic level descriptors for the question
- the standard of response required by a candidate as exemplified by the standardisation scripts.

GENERIC MARKING PRINCIPLE 2:

Marks awarded are always **whole marks** (not half marks, or other fractions).

GENERIC MARKING PRINCIPLE 3:

Marks must be awarded **positively**:

- marks are awarded for correct/valid answers, as defined in the mark scheme. However, credit is given for valid answers which go beyond the scope of the syllabus and mark scheme, referring to your Team Leader as appropriate
- marks are awarded when candidates clearly demonstrate what they know and can do
- marks are not deducted for errors
- marks are not deducted for omissions
- answers should only be judged on the quality of spelling, punctuation and grammar when these features are specifically assessed by the question as indicated by the mark scheme. The meaning, however, should be unambiguous.

GENERIC MARKING PRINCIPLE 4:

Rules must be applied consistently, e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.

GENERIC MARKING PRINCIPLE 5:

Marks should be awarded using the full range of marks defined in the mark scheme for the question (however; the use of the full mark range may be limited according to the quality of the candidate responses seen).

GENERIC MARKING PRINCIPLE 6:

Marks awarded are based solely on the requirements as defined in the mark scheme. Marks should not be awarded with grade thresholds or grade descriptors in mind.

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Social Science-Specific Marking Principles (for point-based marking)

1 Components using point-based marking:

- Point marking is often used to reward knowledge, understanding and application of skills. We give credit where the candidate's answer shows relevant knowledge, understanding and application of skills in answering the question. We do not give credit where the answer shows confusion.

From this it follows that we:

a DO credit answers which are worded differently from the mark scheme if they clearly convey the same meaning (unless the mark scheme requires a specific term)

b DO credit alternative answers/examples which are not written in the mark scheme if they are correct

c DO credit answers where candidates give more than one correct answer in one prompt/numbered/scaffolded space where extended writing is required rather than list-type answers. For example, questions that require *n* reasons (e.g. State two reasons …).

d DO NOT credit answers simply for using a 'key term' unless that is all that is required. (Check for evidence it is understood and not used wrongly.)

e DO NOT credit answers which are obviously self-contradicting or trying to cover all possibilities

f DO NOT give further credit for what is effectively repetition of a correct point already credited unless the language itself is being tested. This applies equally to 'mirror statements' (i.e. polluted/not polluted).

g DO NOT require spellings to be correct, unless this is part of the test. However spellings of syllabus terms must allow for clear and unambiguous separation from other syllabus terms with which they may be confused (e.g. Corrasion/Corrosion)

2 Presentation of mark scheme:

- Slashes (/) or the word 'or' separate alternative ways of making the same point.
- Semi colons (;) bullet points (•) or figures in brackets (1) separate different points.
- Content in the answer column in brackets is for examiner information/context to clarify the marking but is not required to earn the mark (except Accounting syllabuses where they indicate negative numbers).

3 Calculation questions:

- The mark scheme will show the steps in the most likely correct method(s), the mark for each step, the correct answer(s) and the mark for each answer
- If working/explanation is considered essential for full credit, this will be indicated in the question paper and in the mark scheme. In all other instances, the correct answer to a calculation should be given full credit, even if no supporting working is shown.
- Where the candidate uses a valid method which is not covered by the mark scheme, award equivalent marks for reaching equivalent stages.
- Where an answer makes use of a candidate's own incorrect figure from previous working, the 'own figure rule' applies: full marks will be given if a correct and complete method is used. Further guidance will be included in the mark scheme where necessary and any exceptions to this general principle will be noted.

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4 Annotation:

- For point marking, ticks can be used to indicate correct answers and crosses can be used to indicate wrong answers. There is no direct relationship between ticks and marks. Ticks have no defined meaning for levels of response marking.
- For levels of response marking, the level awarded should be annotated on the script.
- Other annotations will be used by examiners as agreed during standardisation, and the meaning will be understood by all examiners who marked that paper.

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PREPARATION FOR MARKING

1 Make sure that you have completed the relevant training and have access to the *RM Assessor Guide*.
2 Make sure that you have read and understand the question paper, which you can download from https://support.rm.com/ca
3 Log in to RM Assessor then mark and submit the required number of practice and standardisation scripts. You will need to mark the standardisation scripts to the required accuracy in order to be approved for marking live scripts. You may be asked to re-mark them, or to mark a second sample, if you do not meet the required accuracy on your first attempt.

MARKING PROCESS

1 Mark strictly to the FINAL mark scheme, applying the criteria consistently and the general marking principles outlined on the previous page.
2 If you are in doubt about applying the mark scheme, consult your Team Leader.
3 Mark at a steady rate through the marking period. Do not rush, and do not leave too much until the end. If you anticipate a problem in meeting the deadline, contact your Team Leader immediately and the Examiners' Helpdesk.
4 Examiners will prepare a brief report on the performance of candidates to send to their Team Leader via email by the end of the marking period. The Examiner should note strengths seen in answers and common errors or weaknesses. Constructive comments on the question paper, mark scheme or procedures are also appreciated.

MARKING SPECIFICS

Crossed out work

1 All of a candidate's answers, *crossed out* or not, *optional* or not, must be marked.
2 The only response not to be marked is one that has been crossed out and replaced by another response for that exact same question.
3 Consequently, if a candidate has crossed out their response to an optional question and gone on to answer a different optional question then both attempts must be marked. The higher mark will be awarded by the system according to the rubric.

0 (zero) marks or NR (no response)

1 Award **NR** if there is nothing at all written in answer to that question (often the case for optional questions).
2 Award **NR** if there is a comment which is not an attempt at the question (e.g. 'can't do it' or 'don't know' etc.)
3 Award **NR** if there is a symbol which is not an attempt at the question, such as a dash or question mark.
4 Award **0** (zero) if there is any attempt at the question which does not score marks. This includes copying the question onto an Answer Booklet.

Annotation

1 Every question must have at least one annotation e.g. <NAQ> if it is an NR and <X> or <seen> if 0 marks are awarded.
2 Every page of a script must have at least one annotation e.g. <BP> for a blank page.

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Paper 3 Specific Marking Guidance

- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Handwriting and use of English language are not to be assessed.
- A response consisting of a list should be assessed. It is unlikely that such a response will score highly in the levels in each Assessment Objective.
- If a response does not fit in the space provided it should be assessed as if it did whether it is shorted, or longer and a continuation sheet is used.
- The main RM Assessor annotations to be used are K (Knowledge), APP (Application), AN (Analysis), EVAL (Evaluation).
- For each of these four annotations, the number of marks awarded must match the number of times that annotation is on the response.
- Only award EVAL if the candidate has also demonstrated APP.
- Application marks are not awarded for repeating material from the case study. Application is achieved by answering in the context of the case or by using the information in the case to help answer the question.
- In Section B, candidates answer either Question 6 or Question 7. The Section B question that the candidate does not answer must be entered as 'no response'.

This mark scheme includes a summary of appropriate content for answering each question. It should be emphasised, however, that this material is for illustrative purposes and is not intended to provide a definitive guide to acceptable answers. It is quite possible that among the scripts there will be some candidate answers that are not covered directly by the content of this mark scheme. In such cases, professional judgement should be exercised in assessing the merits of the answer and the senior examiners should be consulted if further guidance is required.

Application marks are not awarded for repeating material from the case study. Application is by answering in the context of the case or by using the information in the case to help answer the question.

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1</td><td>
Analyse <u>two</u> opportunities for TK resulting from changes in the external environment (lines 17–23).
<table>
<tr><th>Level</th><th>Knowledge
3 marks</th><th>Application
2 marks</th><th>Analysis
5 marks</th></tr>
<tr><td>2</td><td>3 marks
Knowledge of external environment and two opportunities</td><td>2 marks
Points applied to TK</td><td>4–5 marks
Good use of theory and/or reasoned argument to explain benefit(s)</td></tr>
<tr><td>1</td><td>1–2 marks
Knowledge of external environment (1). a Knowledge of external environment and one opportunity (2)</td><td>1 mark
Point applied to TK</td><td>1–3 marks
Some use of theory and/or reasoned argument to explain benefit(s)</td></tr>
</table>
Note: Repeating text from the case study is not APP.
Question is about opportunities to TK. No marks for threats.
Opportunities must be linked to case.

Knowledge
Definition of external environment, factors outside the control of a business, such as government policies, economic factors and demographic and social changes.
Reference to PEST analysis.

Opportunities
• Economic growth – increase in GDP
• Government policy to promote economic growth
• Social changes, age structure of population and changing working patterns
• Technological – use of smartphones and ecommerce.
</td><td>10</td></tr>
</table>

Question	Answer	Marks
1	**Application** • Increasing incomes mean more demand for non-essentials, such as takeaway and delivered food • Government grants and loans help TK to recover from lack of demand caused by the recession • Fewer consumers eating out in restaurants • Demographics in cities where TK are located are likely to purchase delivered meals as they tend to be income rich / time poor • Use of mobile phone apps – most TK customers use these • TK specialises in meal delivery including USP of quality and packaging **Analysis** Building of chains of arguments linked to Knowledge and Application points raised above • Positive impact of increasing incomes on demand and therefore sales and profits. • Analysis of benefits of using mobile phone apps, such as efficient ordering and less errors which will reduce costs and better customer satisfaction which will increase sales. • Government grants may encourage investment in updated technology to increase efficiency. • Younger high-income professionals changing culture away from cooking at home will give TK opportunities to increase sales and expand.	

Question	Answer	Marks
2(a)	**Refer to lines 60–64 and Table 1. Calculate, for Kitchen 2, the:**	
2(a)(i)	**average daily capacity utilisation.** Capacity utilisation = current output **/** maximum capacity × 100 (1 mark if no relevant calculation) Current average daily output = 1000 Maximum capacity = 2200 Average capacity utilisation = 1000 / 2200 × 100 (1) = 45.45(%) (2) 45.45, 45.5 or 45 (2) Other answers 0.45 (1)	**2**
2(a)(ii)	**total contribution for the last six months.** Total contribution = total sales revenue – total variable costs (1) Total variable cost = ($)1.19m (1) 1.4m – 0.38m – 0.80m – 0.01m (2) 1.4m – 1.19m (3) = ($)0.21m OR ($)210 000 (4) 0.21 (3) 0.19m (3) 0.19 (2) (If fixed costs are incorrectly included then loss is ($0.01m) (1) OFR Note: Allow (unit) contribution = selling price – variable cost per unit (1)	**4**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(b)</td><td>

You may refer to your results from 2(a) and other information. Recommend whether TK should close Kitchen 2. Justify your recommendation.

<table>
<tr><th>Level</th><th>Knowledge
2 marks</th><th>Application
2 marks</th><th>Analysis
4 marks</th><th>Evaluation
4 marks</th></tr>
<tr><td>2</td><td>2 marks
Two or more relevant points made</td><td>2 marks
Two or more points applied to TK</td><td>3–4 marks
Good use of theory and/or reasoned argument to answer question</td><td>3–4 marks
Good judgement shown</td></tr>
<tr><td>1</td><td>1 mark
One relevant point made</td><td>1 mark
One point applied to TK</td><td>1–2 marks
Some use of theory and/or reasoned argument to answer question</td><td>1–2 marks
Some judgement shown</td></tr>
</table>

OFR for answers to **2(a)**

Knowledge
- Contribution is the contribution to fixed costs of producing and selling goods.
- Capacity utilisation is the proportion of total capacity currently being used
- Rationalisation is reducing the scale of operations.
- Understanding of methods of costing such as full costing and contribution costing.
- Differentiation between fixed costs which do not change with output and variable costs.

Application
- Revenue from Kitchen 2 is lower than the average for 8 kitchens for a 6-month period (25.4/2 = $12.7m, then 12.7/8 = $1.59m)
- Reference to calculations e.g. capacity utilisation seems low at 45%
- Reference to low income area and lower spend per order.
- On full cost basis, including head office and marketing costs, the kitchen has made a loss of $0.01m over the last six months.
- TK has strategy of growth so rationalisation would be a backward step.
- If TK close Kitchen 2, other kitchens would need to cover the $0.02m head office costs.
- Kitchen 2 makes a contribution of $0.21m to fixed costs.

</td><td>12</td></tr>
</table>

Question	Answer	Marks
2(b)	**Analysis** Development of knowledge and application points made above. • Falling sales in Kitchen 2 may be a drag on the company if it continues, leading to lower profits. • Low capacity utilisation suggests inefficient use of resources with fixed costs being spread over a limited quantity of output resulting in higher unit costs. • Rationalisation may negatively impact staff motivation in other kitchens leading to higher labour turnover. • Marketing and further research may reveal a way in which sales can be increased. • Objectives will influence decision – if growth is an objective, then closure would work against this, impact on shareholder confidence. **Evaluation** Only award EVAL if the candidate has also demonstrated APP. • Supported decision – to close or not to close? – As Kitchen 2 makes a positive contribution (OFR) it should be kept open, to close would result in a reduction in profit. – Closure will benefit profits in the long term as if falling sales continue then profits will decrease. • Limited data – only six months figures, is it a trend or an exception? • Is the area where Kitchen 2 is located slower in coming out of the recession? In which case things could get better. • Other evidence needs to be taken into account e.g. attitude of Thierry and Board of Directors • Need for far more research into consumer tastes and competition in the area before decision is made. • Is marketing mix appropriate for this area?	

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3</td><td>

Evaluate the importance of product and process innovation to the future profitability of TK.

<table>
<tr><th>Level</th><th>Knowledge
2 marks</th><th>Application
2 marks</th><th>Analysis
6 marks</th><th>Evaluation
6 marks</th></tr>
<tr><td>2</td><td>2 marks
Two or more relevant points made</td><td>2 marks
Two or more points applied to TK</td><td>4–6 marks
Good use of theory and/or reasoned argument to consider whether product and process innovation is important</td><td>4–6 marks
Good judgement shown</td></tr>
<tr><td>1</td><td>1 mark
One relevant point made</td><td>1 mark
One point applied to TK</td><td>1–3 marks
Some use of theory and/or reasoned consider whether product and/or process innovation is important</td><td>1–3 marks
Some judgement shown</td></tr>
</table>

Knowledge

- Innovation – The development and introduction of new/updated products and processes, maintaining or improving competitive advantage.
- Definition of profitability and/or profit:
  - Profit = revenue minus costs
  - Profitability is the link between profit and revenue and capital employed
- Product as part of the marketing mix
- Process innovation reducing unit costs
- First mover advantage of being leader of innovation in a market or in an operations process
- Capital cost of research & development (R & D)

Application

- TK has been at forefront of innovations in the food delivery business
- Thierry was an early adopter of the smartphone app for food delivery
- Patent on food packaging container
- Response of innovations to change in social trend, i.e. less eating out, more deliveries
- Necessity of continuous innovation in food menus such as vegan dishes, as well as keeping ‘customer favourites’.
- Advantage of trials in response to need for ‘contactless’ delivery (possible reference to Covid)

</td><td>16</td></tr>
</table>

Question	Answer	Marks
3	**Analysis** Development of knowledge and application points from above. • Innovation has differentiated TK from other delivery companies leading to growth of revenue, profit, and the company. • Innovation is often costly in the short term, such as development of packaging, which leads to higher costs, lower profits, lower shareholder dividends. • Innovations offer solutions to problems but require substantial investment and therefore carry risk – will the ADVs prove to be a costly experiment with no future benefit? • Innovation in menus can enable TK to take advantage of changing social trends such as consumption of non-meat products and give TK a competitive advantage leading to increased sales **Evaluation** Only award EVAL if the candidate has also demonstrated APP. • Conclusion as to the past and future importance of innovation. • Importance of continuing the trend for innovation as a way of maintaining competitive advantage. • Other important internal and factors which determine profitability, such as marketing e.g. letting customers know about innovative menu ideas. • The meaning of success in terms of profitability? Brand image? • The external environment is dynamic and may change in the future and affect profitability differently. • Impact of changing environment will depend on the management of TK and its flexibility in responding to change. Contingency planning may be significant. • Need for continuous research to lead to new ideas. • Need to maintain USP of high quality food which might be threatened by constant change to the menu.	

Question	Answer	Marks
4(a)(i)	**Refer to Table 2. Calculate for 2021 the:** **operating profit margin** operating profit margin = operating profit **/** sales revenue × 100 (1 if no calculation) 3.98 / 25.4 × 100 = 15.67% (2) 15.67, 15.7 or 16 (2) Note: 0.1567, 0.157 or 0.16 (1)	**2**
4(a)(ii)	**return on capital employed (ROCE)** ROCE = operating profit **/** capital employed × 100 (1) $3.98m / $30m × 100 (2) = 13.27% (3) 13.27, 13.3, 13 (3) Note: Use of profit for the year: 3.18m / 30m = 10.6% (2) If no calculation, allow profit **/** capital employed × 100 OR profit for the year **/** capital employed (1)	**3**
4(a)(iii)	**gearing ratio** Gearing ratio = non-current liabilities **/** capital employed × 100 (1) $15m / $30m × 100 (2) = 50% (3) 50 (3) Other answer 0.5 (2) OR NCL **/** Shareholders equity × 100 OR debt **/** equity × 100 (1) $30m – $15m = $15m shareholders' equity (1 if no further calculation) So $15m / $15m × 100 (2) = 100% (3) 100 (3) Other answer 1 (2)	**3**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(b)</td><td>

You may refer to your results from 4(a) and other information. Recommend whether TK should finance the automated delivery vehicle (ADV) trial by a new share issue. Justify your recommendation.

<table>
<tr><th>Level</th><th>Knowledge
2 marks</th><th>Application
2 marks</th><th>Analysis
4 marks</th><th>Evaluation
4 marks</th></tr>
<tr><td>2</td><td>2 marks
Two or more relevant points made</td><td>2 marks
Two or more points applied to TK</td><td>3–4 marks
Good use of theory and/or reasoned argument to analyse factors</td><td>3–4 marks
Good judgement shown e.g. well supported conclusion</td></tr>
<tr><td>1</td><td>1 mark
One relevant point made</td><td>1 mark
One point applied to TK</td><td>1–2 marks
Some use of theory and/or reasoned argument to analyse factors</td><td>1–2 marks
Some judgement shown e.g. one factor very important</td></tr>
</table>

Knowledge
Understanding of factors influencing decision.
- Dividend yield – the % return based on current share price
- Dividend cover ratio – the ability of the company to pay dividends from profit
- ROCE – the operating profit as a % of capital employed
- Understanding of implications of new share issues, dilution of control and dividends
- Other reasons why investors might buy shares, e.g. level of return on other investments
- Other possible ways of financing trial, such as bank borrowing or reducing dividends
- Possible importance of gearing ratio
- Possible importance of operating profit margin

Application
Use of calculated shareholder ratios and ROCE - OFR
- Dividend yield – 8.57% is above average for the catering industry
- Dividend cover – 2.12 times
- ROCE – 13.27 %
- Capital cost of $1.5m – approximately 107 000 shares if they can be sold at current market price
- TK have ambitious innovation plans for ADVs
- In current economic situation interest rates are likely to be low, so incentive to purchase shares.
- Gearing is currently 50%, relatively high

</td><td>12</td></tr>
</table>

Question	Answer	Marks
4(b)	**Analysis** Development of knowledge and application points from above. • Reasons why share capital may be suitable – Above average dividend yield may attract investors and consequently a share issue is likely to be successful. – Share capital is permanent so does not need to be repaid and no interest costs therefore profitability would be greater. – Debt finance will increase gearing. • Reasons why share capital may not be suitable – Issuing new shares may lead to a dilution of control of TK for Thierry which he may not want. – Shareholders will expect dividends every year reducing retained profit whereas a loan would only incur expenses for the duration of the loan. – A share issue may result in a reduction in the share price which current shareholders will be unhappy about. **Evaluation** Only award EVAL if the candidate has also demonstrated APP. • Recommendation and justification of whether new share issue is the best source of finance. It depends on: – Investors' willingness to buy shares – Evaluation of alternative source of finance – Debt finance (loans) has to be repaid with interest so may not be suitable as this is a high-risk investment – Will banks be willing to lend money for high-risk investment • This is a competitive industry, and innovation will be important, it has been one of the features of TK so shareholders may look favourably on this. • ADV investment is speculative – will investors be willing to take the risk? Other evaluative comment e.g. importance of the trend of ratio results or comparison with similar businesses.	

Question	Answer	Marks
5	**Evaluate whether introducing Just in Time (JIT) will be sufficient to solve the inventory problems at TK.**	**16**

Level	Knowledge 2 marks	Application 2 marks	Analysis 6 marks	Evaluation 6 marks
2	2 marks Two or more relevant points made	2 marks Two or more points applied to TK	4–6 marks Good use of theory and/or reasoned argument	4–6 marks Good judgement shown
1	1 mark One relevant point made	1 mark One point applied to TK	1–3 marks Some use of theory and/or reasoned argument	1–3 marks Some judgement shown

Knowledge
- JIT as part of lean production
- Lean production – aims to cut down waste during production, including inventory holding costs
- Enterprise Resource Planning as a possible way of managing resources and facilitating JIT.

Application
- Meals produced in batches of different dishes
- Demand difficult to predict due to changes in trends, weather, media reviews
- Many ingredients are perishable so limited storage time possible
- HR issues, such as flexible contracts for many employees in each kitchen
- Inventory problems have led to wastage/disappointed customers
- Quality really important as it is TK's USP

Analysis
Development of knowledge and application points from above.
- As demand is difficult to predict TK may overstock certain ingredients and if demand does not emerge there will be wastage of fresh ingredients.
- JIT will reduce stock holdings which will reduce wastage of food so reduce costs.
- However, with JIT, if demand is not accurately predicted there may be insufficient stock to satisfy customers which may lower future sales.
- Quality is an important USP, in terms of food, packaging and service. JIT may increase quality as food will be fresher however there is a risk that certain ingredients will not be available when required.
- JIT will require more frequent deliveries from suppliers so strong supplier relationships become more important to guarantee deliveries on time.

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Question	Answer	Marks
5	**Evaluation** Only award EVAL if the candidate has also demonstrated APP. • Judgement as to how successful JIT may be in solving inventory problems • Need for all departments to work together to coordinate marketing and operations, as some inventory problems may be solved by influencing consumer demand, for instance by images on the app. • Evaluation of possible limitations on change e.g. – Lead times and flexibility of suppliers – Depends on reliable suppliers and a good relationship with them – Attitude of Thierry and directors as there is risk involved in changing to JIT – Accuracy of sales forecasting – Cost of training employees and/or introducing ERP • Judgement as to whether JIT may be the best technique to introduce. Other evaluative comment e.g. importance of market research.	

Question	Answer	Marks

Questions 6 and 7 use this marking grid:

Level	Knowledge 3 marks	Application 3 marks	Analysis 4 marks	Evaluation 10 marks
3				7–10 marks Good judgement shown throughout with well supported conclusion/ recommendation, focused on the business in the case
2	3 marks Good understanding shown	3 marks Good application to the case	3–4 marks Good use of reasoned argument or use of theory to explain points made	4–6 marks Some judgement shown in the main body of the answer **and** an attempt to support conclusion/ recommendation, focused on the business in the case **OR** effective and well supported conclusion/ recommendation, focused on the business in the case
1	1–2 marks Some understanding shown	1–2 marks Some application to the case	1–2 marks Limited use of reasoned argument or use of theory to support points made	1–3 marks Limited attempt to show judgement either within the answer **OR** a weakly supported conclusion/ recommendation with some focus on the business in the case
0	No creditable content			

Question	Answer	Marks
6	**Evaluate the usefulness to TK's directors of the strategic choice data in Appendix 1 as they make the decision between option 1 and option 2.**	**20**

Appendix 1

	Option 1 TK luxury restaurant chain	Option 2 Takeover of snack manufacturer
Initial cost	$4m	$2.5m
Estimated accounting rate of return (ARR)	9.1%	7.6%
Main driving force	Market for luxury restaurants may grow as economies recover from recession	Can be sold and delivered with existing meal delivery service
Main restraining force	Ability to respond to high level of competition in the market	No experience in packaged snack production
Estimated chances of failure	35%	30%
Estimated monetary value over five years	$3.5m	$2.2m

Note: Focus should be on strategic choice techniques NOT strategic analysis techniques.

Knowledge

- Strategic choice is part of strategic management and involves the process of identifying and deciding between different options.
- Strategic choice techniques such as Ansoff's Matrix, decision trees, force field analysis and investment appraisal.
- Strategic choice techniques help evaluate the risks and rewards from different strategic options.
- Understanding of different choice techniques:
  - Investment appraisal: payback and ARR. How quickly investment is recovered and the average profitability of the investment.
  - Decision trees – inclusion of probability to calculate the monetary outcomes from investments and make choice based on quantitative data
  - Force field analysis – considers driving and restraining factors in a decision
  - Ansoff's matrix – considers risk of growth strategies with reference to product and market
- Quantitative and qualitative factors.
- Reference to strategic analysis techniques when preparing for choice such as SWOT, PEST, Boston matrix, Porter's 5 Forces, Core competencies and others.

Question	Answer	Marks
6	**Application** • Use of the techniques/factors for two options – Appendix 1 examples. • Ansoff's matrix – Option 1 is product development or market development – Option 2 is product development or diversification. • Option 2 has higher probability of success - less risk • Option 1 has higher EMV and ARR • Option 1 capital cost is $1.5m greater – link to high gearing of 50% • Driving and restraining forces. – Complementary product for option 2 – Economic growth and demand for luxury restaurants – High competition in restaurant market in Europe – Not using core competence in option 2 **Analysis** • How techniques may be used and the advantages and disadvantages. Force field analysis encourages managers to consider different aspects of a decision. By identifying restraining forces action can be taken to mitigate the negative effects of those restraining forces. • Better decision making by considering the quantitative aspects of the choices. – Use of probabilities in decision trees reducing risk for TK of option choice. – ARR enables TK to choose option with highest return which may be important to shareholders as will influence dividends. • The use of techniques to analyse aspects of the options. • Interpretation of Ansoff's matrix to compare the relative risk of each option therefore guiding decision making. e.g. option 2 might be considered to be diversification and therefore higher risk than option 1 so is therefore a better option • How information identified might guide strategic choice, e.g. short-term impact of higher initial cost of option 1 balanced against higher risk of failure, but higher EMV • How SC techniques, linked with data, might guide strategic choice. • Advantages/disadvantages of using qualitative and quantitative techniques **Evaluation** Only award EVAL if the candidate has also demonstrated APP. • Judgement/evaluation about usefulness of strategic choice techniques supported by e.g. – Is Ansoff useful in this case as risk more influenced by factors such as economic growth impacting incomes. – Subjective nature of Force Field Analysis – Limitations of using only quantitative or qualitative techniques. • Elements that the evaluation/judgement might depend on such as: – Accuracy of estimates for quantitative techniques – Importance of understanding where the business is now in order to move forward with strategic choice – Other information	

Question	Answer	Marks
6	• Evaluation of other factors that influence choice such as: – Attitude of directors – Attitude to risk – Influence of strategic analysis – Corporate objectives of TK – Impact of different strategies on stakeholders – Long-term v short-term impacts – Other information that might be useful – Capital available. • Justification of most useful technique(s) with supporting argument. • Techniques encourage directors to consider the possible quantitative outcomes of each strategy. This will help decide which is the best and therefore reduce risk. • Evaluation that strategic choice on its own is not enough to fully support a decision. • TK operate in a dynamic environment so analysis may quickly become outdated.	

Question	Answer	Marks
7	**Evaluate the importance to TK of contingency planning when implementing strategies to diversify the activities of the business.** **Knowledge** • Definition of contingency planning • Preparing an organisation's resources for unlikely events that may have a significantly detrimental impact on the business. • May also be referred to as scenario planning or business continuity planning. • Understanding of strategies • Understanding of diversification of business activities Benefits • Reassures customers and staff that their interests are being considered. • Reduces potential impact on customers resulting from a significant disruptive event. • A plan will enable a business to respond more quickly when a significant disruptive event occurs. • Recognising major risks may actually reduce the risk of the event happening. Limitations • Disruptive events will still occur. • Cannot have contingency plans for all eventualities. • Need and cost associated with developing a plan. **Application** Recognising major risks, associated with option 1 and option 2, such as: • Food contamination in either option • Failure of equipment – could impact storage of food in either option • Failure of snack supplies in option 2 • Fire in restaurants or kitchens in option 1 • Lockdowns/recession keeping people in their homes and away from restaurants • Cyber attack on restaurant booking system **Analysis** • Planning can be expensive and time consuming. There is the planning process and also the need to train staff for each possible eventuality. • Dynamic markets make regular updates to contingency planning essential, so ongoing time and expense. • With contingency planning the public relations response to disasters is much more likely to be quick and appropriate so that senior managers can manage media attention and customer and employee concerns. • Effective communication of what the company intends to do, by when and how, will reduce the impact of bad PR and loss of customer loyalty. • Contingency planning makes crisis management easier when a crisis occurs leading to a lower chance of sales being negatively affected. • Contingency planning will mean that TK is less reliant on which employees happen to be present when a crisis occurs.	**20**

Question	Answer	Marks
7	**Evaluation** Only award EVAL if the candidate has also demonstrated APP. • Judgement of extent to which contingency planning is important to success of option 1 and option 2. • Contingency planning is just one element of business planning to implement a diversification strategy. • Avoiding significant disruptions may be better than planning what to do if they happen. • Plans need to be updated frequently as the business develops increasing costs. • Cost to TK needs to be balanced against the potential costs of not doing it. Which potential disasters could/should be planned for? • Evaluation of time spent on preparing and testing contingency plans. • It is impossible for TK to plan for all eventualities.	

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