OCR
RECOGNISING ACHIEVEMENT

GCE

Business Studies

Advanced GCE

Unit **F297:** Strategic Management

Mark Scheme for June 2013

Oxford Cambridge and RSA Examinations

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This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which marks were awarded by examiners. It does not indicate the details of the discussions which took place at an examiners' meeting before marking commenced.

All examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes should be read in conjunction with the published question papers and the report on the examination.

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Annotations

Annotation	Meaning
	Unclear
	Benefit of doubt
	Cross
	Level 1
	Level 2
	Level 3
	Level 4
	Not answered question
	No use of text
	Own figure rule
	Repetition
	Noted but no credit given
	Too vague
	Tick

EVERY PAGE, INCLUDING BLANK PAGES (use the SEEN annotation), MUST HAVE SOME ANNOTATION

<table>
<tr><th colspan="3">Question</th><th>Answer</th><th>Marks</th><th>Guidance</th></tr>
<tr><td>1</td><td>(a)</td><td></td><td>
<table>
<tr><th>Node</th><th>Cost x probability</th><th>EMV £</th></tr>
<tr><td>8</td><td>£30,000 x 0.7 = £21,000
£18,000 x 0.2 = £3,600
£12,000 x 0.1 = £1,200</td><td>£25,800
OR
£24,300*</td></tr>
<tr><td>9</td><td>£30,000 x 0.6 = £18,000
£18,000 x 0.2 = £3,600
£12,000 x 0.2 = £2,400</td><td>£24,000</td></tr>
<tr><td>10</td><td>£30,000 x 0.5 = £15,000
£18,000 x 0.3 = £5,400
£12,000 x 0.2 = £2,400</td><td>£22,800</td></tr>
<tr><td>11</td><td>£20,000 x 0.7 = £14,000
£12,000 x 0.2 = £2,400
£6,000 x 0.1 = £600</td><td>£17,000
OR
£15,000*</td></tr>
<tr><td>12</td><td>£20,000 x 0.6 = £12,000
£12,000 x 0.2 = £2,400
£6,000 x 0.2 = £1,200</td><td>£15,600</td></tr>
<tr><td>13</td><td>£20,000 x 0.5 = £10,000
£12,000 x 0.3 = £3,600
£6,000 x 0.2 = £1,200</td><td>£14,800</td></tr>
<tr><td>4</td><td>£22,000 x 0.4 = £8,800
£18,000 x 0.3 = £5,400
£14,000 x 0.3 = £4,200</td><td>£18,400
OR
£13,400*</td></tr>
<tr><td>5</td><td>£20,000 x 0.4 = £8,000
£16,000 x 0.3 = £4,800
£14,000 x 0.3 = £4,200</td><td>£17,000
OR
£13,000*</td></tr>
</table>
</td><td>13</td><td>1 mark per correct node

Remember to apply the ‘own figure rule’, particularly at
• decision nodes 6, 7;
• at event nodes 2 and 3 and then at;
• Decision node 1.

Each node should have either
• a tick if correct or;
• a cross if incorrect.

If a node has a value which is correct using the ‘own figure rule’ add the ‘OFR’ annotation next to the tick.

The number of ticks and crosses should therefore add to 13.

The number of ticks determines the mark awarded.

Correct answers could be presented in a number of formats therefore the number of zeros is not critical.
Example
Node 8
Accept any of the following:
25800
2580
258
2.58

*Please note the alternative answers to nodes 8, 11, 4, 5, 2 and 3</td></tr>
</table>

Question	Answer	Marks	Guidance

Node	Cost x probability	EMV
6	**DECISION NODE - OFR** **Carry forward values from nodes 8 and 9** Additional sponsorship = £25,800 – £1,500 = £24,300 OR, No additional sponsorship = £24,000	£24,300
7	**DECISION NODE - OFR** **Carry forward values from nodes 11 and 12** Additional sponsorship = £17,000 – £2,000 = £15,000 OR, No additional sponsorship = £15,600	£15,600
2	**EVENT NODE - OFR** **Carry forward values from nodes 6 and 10** £24,300 x 0.6 = £14,580 £22,800 x 0.4 = £9,120	£23,700 OR £13,700*
3	**EVENT NODE - OFR** **Carry forward values from nodes 7 and 13** £15,600 x 0.6 = £9,360 £14,800 x 0.4 = £5,920	£15,280 OR £13,280*
1	**DECISION NODE - OFR** **Carry forward values from nodes 2, 3 4 and 5** Sponsor race = £23,700 - £10,000 = £13,700 OR, Team = £15,280 - £2,000 = £13,280 OR, above the line = £18,400 - £5,000 = £13,400 OR, Targeted discounts = £17,000 - £4,000 = £13,000	**£13,700**

Question			Answer	Marks	Guidance	
					Content	**Levels of response**
	(b)		*Analysis of D*ecision *tree suggests sponsor the race, but the branches into node 1 have very similar EMVs. Hence some might argue that the tree is not especially useful here, and indeed question the source and objectivity of the data within it.* ***The issue is the extent to which the four options in the tree would actually lead to any of the three objectives being met.*** *Objectives are* *1. Bring the Rockingham Forest Peddlers to break-even by 2015* *2. Increase the proportion of revenue from web sales to 55% by 2014* *3. Become the number one cycle retailer in the east midlands* ***Objective 1*** *Easy, finance director by reallocation overheads which are currently done on a full cost basis, apportioned by percentage of sales revenue. Profit is simply a managerial construct so providing the profit centre makes a positive contribution then it can be made to show a profit. This doesn't require any use of the options in the tree; it is entirely an internal management accounting issue. So, decision has no bearing on objective other than to raise this outlets sale.* ***Objective 2*** *Race or team, if it/ they do well then raises profile of CCL across the country which in turn may well lead to increase in web sales. But is there a clear link between this promotional activity and sales? One would hope so.* ***Objective 3.*** *A non-SMART objective, so it is not possible to achieve this no matter whether the race is sponsored or not simply because it is vague.*	**18**	This part question should be marked in conjunction with Q1a such that any material in the answer is credited in a manner which is consistent with the values achieved for the nodes in Q1a. A candidate that does not offer a recommendation (i.e. addresses the command word 'should') is to be rewarded in the lower half of the mark range for the appropriate skill level. Candidates who solely focus on the issue of the race sponsorship without any recourse to CCL's objectives is to be rewarded in the lower half of the mark range for the appropriate skill level.	**Level 4: 18–12 marks** Discussion is balanced in evaluating the possible linkages between the race and the 2014 objectives and disadvantages and hence coming to a view. **Level 3: 11–8 marks** Case material is analysed to arrive at a view as to whether the sponsoring the race would have an impact on the 2014 objectives. **Level 2: 7–4 marks** Possible issues regarding how race sponsorship might link to objectives are described in support of a view **Level 1: 3–1 marks** Offers an unsupported decision. **The bottom mark in each level MUST only be used for a BOD answer at that level.**

Question			Answer	Marks	Guidance	
					Content	Levels of response
2			*Note the question is framed in terms of UK unemployment whereas the data in the case is for the East Midlands.* *But, CCL is both a national/ international business via its web sales, but also a regional business via its retail outlets for sales and hire. Good candidates may well therefore argue that the strategy will reflect whether the rise is different at UK and regional level. So if UK unemployment rises yet regional doesn't then CCL might shift its emphasis away from web sales toward its bricks and mortar operations. However, how possible is this given the different set of skills the staff need in these two very different types of selling? Can a web designer sell to a physical customer?* *Are purchase and hire customers different? Might it be that given the price of a machine a purchase customer is more likely to be employed than a hire customer. If so, the split between sales and hire might shift, so requiring an adjustment of the product portfolio on offer and a possible realignment of prices. Note how expensive it is to hire a machine, something which suggests it is not a cheap day out for an unemployed family.* *Possibility of closing any loss making aspects of CCL. Increased unemployment undermines the use of electric bicycles in the commuter market.* *Data shows rising sales since 2009, at a time when regional unemployment rate has risen from 7.4% to 8.0%. Is this evidence that there is no linkage between the two?*	**18**	*Impact on strategy will depend on* • how much unemployment rises by; • over what time period. *Consideration, and development, of these factors offers a possible route to evaluation.* Answers which cover what CCL might do in **response** to the external change should be rewarded in the upper half of the mark range. Answers which address the **impact** of the external change on CCL should be rewarded in the bottom half of the mark range.	**Level 4: 18–12 marks** Discussion is evaluative in balancing different possible responses by CCL **Level 3: 11–8 marks** Case material is subject to analysis in discussing the possible consequences for CCL given a rise in unemployment, so if income falls then than demand falls so CCL should/ might…. **Level 2: 7–4 marks** Shows understanding of unemployment by, for example, developing a link between it and CCL, e.g. if unemployment rises, income falls, so demand falls. **Level 1: 3–1 marks** Demonstrates knowledge of unemployment by, for example, by identifying types or offering a definition. **The bottom mark in each level MUST only be used for a BOD answer at that level.**

Question			Answer	Marks	Guidance	
					Content	Levels of response
3			In response to changes in market demand *2009 sales £6.8m, 2012 non web sales are £6.4m suggest that growth is in the web business. So, as the web side of the business continues to grow then the impact of changes in demand will decline so a reasonable strategy would be to do very little.* *Strategy; loser. So, reassign resources from one part of the business to another. Given the forest outlet is next to a camping and caravan site might it be worth investigating closing this in the off season, or matching its annual opening to the opening of the caravan site. Would the landlord (NB rent free) be up for this? If so, what to do with the forest outlet staff? Can they be absorbed elsewhere into the business? Impact on cost at a time (off peak) when sales would be lower. If you let them go, are their special skills readily acquired at the start if the next season? What happens to long term relationship building with a transitory retail staff?* *How about hiring weekend staff to deal with the queues? But would additional staff lead to additional sales or simply more (labour) cost? If a customer has driven across to hire a machine will they wait or leave? Need to establish an acceptable waiting time before committing more resources, so some MR might be a sensible starting point.* *Diversify into a counter seasonal business; what else could the resources be used for?*	**18**	*Currently use* • *Price discrimination for hire;* • *Variable seasonal opening times;* • *End of season sales.* Changes in market demand can be interpreted as: seasonality changes in customer life styles macro-economic factors. **The key is what CCL could do and why?**	**Level 4: 18–12 marks** Recommendation is clearly strategic in focus, with any actions to address changes in market demand being supported by case evidence and their sequence is reasoned and justified. **Level 3: 11–8 marks** Analysis of material supports possible actions in the face of changes in market demand. These action stand alone; they are not sequenced nor are balanced against each other. **Level 2: 7–4 marks** Describes possible steps to address changes in market demand as discrete actions. **Level 1: 3–1 marks** Offers unsupported ideas and/or shows knowledge of strategy. **The bottom mark in each level MUST only be used for a BOD answer at that level.**

<table>
<tr><th colspan="3">Question</th><th>Answer</th><th>Marks</th><th colspan="2">Guidance</th></tr>
<tr><td></td><td></td><td></td><td></td><td></td><td>Content</td><td>Levels of response</td></tr>
<tr><td>4*</td><td></td><td></td><td>Does CCL have the capital available? If so, what is the opportunity cost of the investment? If not, what is the cost of finance? If over 7% then neither option looks worthwhile. Consider sunk costs. If the golf shop goes wrong what is the recoverable cost? Who would buy them out? Is there a second hand market for panels? Golf shop, what happens after five years?

Non-financial issues.
Ethics of ‘green’ energy. Can this be used as a marketing differentiator, would movement toward a carbon neutral situation resonate with customers? Certainly it fits with the image of the business. If energy costs rise then the panels become more attractive.
Would Phil’s dislike of utilities steer him to a degree of self-sufficiency?

Payback exceeds the lease, so the project is only worthwhile if the lease can be extended. As a tenant why would you pay to improve the quality of the landlord’s asset?

Use of Ansoff Matrix to look at golf shop; just what are the claimed synergies?
Do these really exist? Yes, CCL have expertise in retail but are the customers the same in the two markets? Might the golf shop cause a dilution of managerial attention as Phil (or someone) gets to grips with this new market to the detriment of CCL.</td><td>23</td><td>NB The maximum marks for each level for this question differs from that for Q1b through to Q3.

The mark awarded MUST correspond to the level indicated within the script

Calculation of ARR or PBP is L2.
Discussion of the outcome of either calculation is L3.

<table><tr><td></td><td>Panels</td><td>Golf</td></tr><tr><td>ARR</td><td>8%</td><td>7%</td></tr><tr><td>PBP</td><td>12.5</td><td>3.83 yrs</td></tr></table>
Solar panels have between a £15k or £50k capital outlay depending upon how many stores are covered. ARR is 1,200/ 15,000 is 8% and a PBP of 12.5 years.
If all three outlets are invested in then the ARR is 7.2% and PBP is 13.9 years
Golf shop has £40k outlay, ARR of 7% (total profit is 14, so ave annual profit is 2.8, so 2.8/ 40 = 7%) and a PBP of 3 years, 10 months.
On investment appraisal grounds it depends on the priority, risk reduction (so PBP favours the golf option) or profits (so ARR favours the panels).</td><td>Level 4: 23–17 marks
Achieves an overall recommendation having evaluated possibilities. Complex ideas have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured, using appropriate technical terminology. There may be few, if any, errors of spelling, punctuation and grammar.
Level 3: 16–11 marks
Analysis of the case material supports possible decision. Relatively straight forward ideas have been expressed with some clarity and fluency. Arguments are generally relevant, though may stray from the point of the question. There will be some errors of spelling, punctuation and grammar, but these are unlikely to be intrusive or obscure meaning.
Level 2: 10–5 marks
Describes a decision with descriptive use of the case material.
Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling, punctuation and grammar of which some may be noticeable and intrusive.</td></tr>
</table>

Question			Answer	Marks	Guidance	
					Content	Levels of response
			Is this a strategic diversification or simply an opportunity? There is no evidence in the case to suggest that Phil and the shareholders have been looking to move into a new market. However, in many ways both markets are similar; both recreational, both discretionary income so risk spreading is minimal (exposed to the same macroeconomic influences). Only real difference is that once a golfer has paid their club membership any games also carry a cost (green fee) whereas for a cyclist, once you have your bike its use is at zero marginal cost. But for a hirer, this isn't true.		CCL's ROCE at 11.24% is larger than either investment option. So there has to be a strong non-financial rationale for investing the capital into a project which produces a lower return than the core business. A candidate that does not offer a recommendation (i.e. addresses the command word 'should') is to be rewarded in the lower half of the mark range for the appropriate skill level.	**Level 1: 4–1 marks** Offers an unsupported decision Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar which will be noticeable and intrusive. Writing may also lack legibility. **The bottom mark in each level MUST only be used for a BOD answer at that level.**

APPENDIX 1

	M Jaune Oakford	M Jaune Mkt H	Peddlers Reservoir	Peddlers Mkt H	Peddlers Forest	Internet	CCL
Manager	Will Farmer	Ben Turnbull	Olivia Tsong	Andrew Jarvis	Sam Tipper	Jo Russell	
Staff	4	4	12	10	2	27	59
	£0	£0	£0	£0	£0	£0	£0
Revenue	1640	1458	1495	1415	440	6845	13292
Cost of sales	738	656	598	566	220	3080	5858
Overheads	872	775	795	752	234	3640	7068
Profit	30	27	102	97	-14	125	366
Gpm	55.0%	55.0%	60.%	60.0%	50.0%	55.0%	55.9%
Profit margin	1.8%	1.8%	6.8%	6.8%	-3.2%	1.8%	2.8%
Sales per staff	410.0	364.5	124.6	141.5	220.0	253.5	225.3
% revenue	12.3%	11.0%	11.2%	10.6%	3.3%	51.5%	
% profit	8.2%	7.4%	27.9%	26.5%	(3.8%)	34.2%	

By brand

	M Jaune	Peddlers	Internet	CCL
Staff	8	24	27	62
Revenue	3098	3350	6845	13293
Cost of sales	1394	1384	3080	5858
Overheads	1647	1781	3640	7068
Profit	57	185	125	367
gpm	55.0%	58.7%	55.0%	55.9%
Profit margin	1.8%	5.5%	1.8%	2.8%
Sales per staff	387.25	139.58	253.52	214.40
% revenue	23.3%	25.2%	51.5%	
% profits	15.5%	50.4%	34.1%	

APPENDIX 2

FHL Financial ratios 2011 & 2012

Ratio	Formula	Data	2012
SLOVENCY			
Gearing	Long Term Liabilities x 100 Capital employed	0/ 3264	0.0%
Interest cover ratio	Profit before interest and tax Interest expense		n/a
LIQUIDITY			
Current ratio	Current assets Current Liabilities	4191 1454	2.88
Acid Test	Debtors + Cash Current Liabilities	1108 + 175 1454	0.88
ACTIVITY			
Stock turnover (days stock)	Sales revenue Stock Trading days/ Stock t/o	13293 2908	4.57 times 79.85 days
Debtor turnover (days debtors)	Sales revenue Debtors Trading days/ Debtor t/o	13293 1108	11.99 times 30.42 days
Creditor turnover (days Creditors)	Materials Trade Creditors Trading days/ creditor t/o	5858 1454	4.03 times 90.60 days
Fixed Asset turnover	Sales revenue Fixed Assets	13293 527	254.22 times
PROFITABILITY			
Return on Capital Employed (ROCE)	Profit before interest and tax x 100 Capital employed	367 3264	11.24%
Gross profit margin, gpm	Gross profit x 100 Sales revenue	7435 13293	55.93%
Net profit margin, npm	Profit before interest and tax x 100 Sales revenue	367 13293	2.76%
Return on Equity (ROE)	Net Profit x 100 Equity shareholders' funds	367 3264	11.24%

SHAREHOLDERS			
Earnings per share (EPS)	Net Profit / Number of shares in issue	367 / 100	£3.67
Dividends per share (DPS)	Dividend / Number of shares in issue		n/a no dividend data
Dividend yield	DPS / Share price x 100		n/a no share price
Price/ Earnings ratio (P/E)	Share price / EPS		n/a no share price

Allow reasonable rounding.

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