

GCE

Applied Business

Unit **F248**: Strategic Decision Making

Advanced GCE

Mark Scheme for June 2014

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
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.

OCR will not enter into any discussion or correspondence in connection with this mark scheme.

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These are the annotations, (including abbreviations), including those used in scoris, which are used when marking

Annotation	Meaning of annotation
	Blank Page – this annotation must be used on all blank pages within an answer booklet (structured or unstructured) and on each page of an additional object where there is no candidate response.
	The response given is 'Unclear' to the marker.
	'Benefit of doubt' but credit given.
	To indicate the response is in 'Context' of the relevant case study.
	Response is incorrect, no credit can be given.
	Use for Level of response answers to indicate Level 1.
	Use for Level of response answers to indicate Level 2.
	Use for Level of response answers to indicate Level 3.
	Use for Level of response answers to indicate Level 4.
	The response is not incorrect but has 'Not answered the question'.
	Own figure rule. Use where indicated in the mark scheme.
	'Repeat' Response repeats the same marking point.
	'Noted but no credit given' or to indicate all or part blank answer pages have been seen by the marker.
	Correct point/answer. Credit can be given.
	No use of text

Subject-specific marking instructions**Blank answer spaces**

To be sure you have not missed any candidate responses you must check every page of the question paper and annotate any blank answer spaces with the following annotation:

SEEN

Additional Objects

You must also check any additional pages (shown as Additional Objects) which the candidate has chosen to use.

Before you begin marking, use the Linking Tool, to 'link' any additional page(s) to the relevant question(s) and mark the response as normal.

All additional pages must be annotated with the 'SEEN' stamp, so it is clear to centres that the additional pages have been viewed by the marker.

Testing of QWC

In this external assessment the assessment of QWC will take place in Question 4c which is a levels of response question and carries 14 marks.

Marks are embedded within this question for assessing the quality of written communication. The following criteria are embedded within the levels of response for Question 4c.

Level 4:

Ability to present relevant material in a well planned and logical sequence. Material clearly structured using appropriate business terminology confidently and accurately. Sentences, consistently relevant are well structured in a way that directly answers question. There will be few, if any errors of grammar, punctuation and spelling.

[4 marks representing the appropriate level of written communication are embedded in this level of response].

Level 3:

Ability to present relevant material in a planned and logical sequence. Appropriate business terminology used. Sentences for the most part relevant presented in a balanced, logical and coherent manner which addresses the question. There will be occasional errors of grammar, punctuation and spelling.

[3 marks representing the appropriate level of written communication are embedded in this level of response]

Level 2:

Limited ability to organise relevant material. Some appropriate business terminology used. Sentences are not always relevant with material presented in a way that does not always address the question. There may be noticeable errors of grammar, punctuation and spelling.

[2 marks representing the appropriate level of written communication are embedded in this level of response]

Level 1:

Ability to communicate at least one point using some appropriate business terminology. Sentences have limited coherence and structure, often being of doubtful relevance to the main focus of question. Errors of grammar, punctuation and spelling may be noticeable and intrusive.

[1 mark representing the appropriate level of written communication is embedded in this level of response]

Question		Answer	Mark	Guidance
1	(a)	<p>Indicative content:</p> <ul style="list-style-type: none"> communicates vision/direction/purpose/focus/culture/philosophy/image/branding/purpose/targets/goals/aims/underlying principles/values/beliefs/qualities to stakeholders eg customers, employees, financiers, public, etc. <p>Exemplar responses:</p> <p>Eg A mission statement communicates the philosophy of a business (1) to its external stakeholders (1).</p> <p>Eg It tells stakeholders (1) what the business is trying to achieve (1).</p>	2	<p>AO1: 2</p> <p>Up to two marks.</p> <p>One mark for content. One mark for stakeholder.</p> <p>Do not award objectives.</p> <p>Do not award 'others'/'people' – too vague.</p> <p>No context required.</p>

Question		Answer	Mark	Guidance
1	(b)	<p>Indicative content:</p> <ul style="list-style-type: none"> • employees • owners/Maria/Gino • supermarkets/customers • shoppers/consumers • ethical suppliers • local residents/local community/locals • government • environmentalists. <p>Exemplar responses:</p> <p>Eg Members of staff (1).</p> <p>Eg People who eat <i>FFL</i>'s tomatoes (1).</p>	2	<p>AO1: 2</p> <p>One mark for each correct identification up to a maximum of two identifications.</p> <p>Do not award 'general public' – too vague.</p> <p>Do not award 'pressure groups' or 'campaigners' unless qualified as ethical/environmental.</p> <p>Where more than 2 answers are given mark the first response on each line only.</p>

Question		Answer	Mark	Guidance
1	(c)	<p>Indicative content:</p> <ul style="list-style-type: none"> • to measure/evaluate success • to motivate staff • to use as a target to aim for/something to achieve • something to work towards • to communicate with (internal) stakeholders • to monitor progress • to keep on track • to provide focus • to clarify purpose/thinking/priorities • to plan/aid decision-making • to highlight areas of weakness • to provide direction • to encourage unity/common purpose • to keep control 	2	<p>AO1: 2</p> <p>One mark for each correct identification up to a maximum of two identifications.</p> <p>Must be benefits not statements. Eg Do not award 'can be SMART', 'can be short or long term' or 'can be broken down so easier to achieve'.</p> <p>Do not award examples.</p> <p>No context required.</p>

		<ul style="list-style-type: none"> allow objectives/targets to be set employees know what is expected of them to attract potential investors/customers, etc minimise conflict. <p>Exemplar responses:</p> <p>Eg To motivate the workforce (1).</p> <p>Eg Gino and Maria could use goals to monitor how well the farm is doing (1).</p>		
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Question		Answer	Mark	Guidance
2	(a)	<p>Indicative content:</p> <ul style="list-style-type: none"> to ensure elements of the marketing mix do not conflict to ensure strands work together to give a unified/clear message to reinforce marketing strands. <p>Exemplar responses:</p> <p>Eg To ensure that the strands work together (1) and give a unified message to potential consumers (1).</p> <p>Eg To maximise the likelihood of the public purchasing the product (1) by ensuring that a clear message is given about the benefits of the product (1).</p>	2	<p>AO1: 1 AO2: 1</p> <p>One mark for a correct identification, plus a further one mark for an explanation.</p> <p>No context required.</p> <p>Do not award for effectiveness of budget (must be marketing budget).</p> <p>Do not award vague responses eg 'work better as a whole'.</p> <p>Examples can be awarded if they clarify a point.</p> <p>Identification must be correct for reasoning to be awarded.</p>

Question		Answer	Mark	Guidance
2	(b)	<p>Indicative content:</p> <ul style="list-style-type: none"> • Product - health, colour, flavour, freshness, on vine, new, uniqueness, packaging, etc • Place – supermarkets, independents, markets, etc • Price – high, low, competitive, premium, penetration, psychological, skimming, etc • Promotion – sales promotion, discount, BOGOS, tv advertising, point of sale, leaflets, free sample, newspapers, bulletin boards, etc. <p>Exemplar responses:</p> <p>Eg Product: The unusual purple colour of the tomatoes could be emphasised (1). This would differentiate the product from other tomatoes on the market (1).</p> <p>Eg Place: Gino could try and get high-end supermarkets to stock the Purple Prince first (1). This would give this new variety an upmarket image (1).</p> <p>Eg Price: <i>FFL</i> should charge competitive prices (1) to encourage more consumers to try it (1).</p> <p>Eg Promotion: <i>FFL</i> could put an advertisement in a health magazine (1). This would inform health conscious people living across the whole of the country that the new Purple Prince tomato is available in the shops (1).</p>	8	<p>AO1: 4 AO2: 4</p> <p>One mark for each correct identification up to a maximum of four identifications, plus a further one mark for each of four explanations.</p> <p>No marks for naming the 4Ps.</p> <p>Accept any reasonable strategy appropriate to the new variety of tomato.</p> <p>Suggestions must be how or what.</p> <p>Reasons must explain why that particular strategy is suitable specifically to <i>FFL</i>.</p> <p>Do not award ‘creates publicity’ unless qualified.</p> <p>Do not award explanation marks for ‘local’ unless referring to misshapen tomatoes as this is a national supplier.</p> <p>Product – do not award ‘loose’ or ‘classic’ – these are not special features.</p>

Question	Answer	Mark	Guidance
3 (a)	<p>Cash-flow</p> <p>Indicative content:</p> <ul style="list-style-type: none"> • inflows and outflows of funds/money/capital etc • movement of money within the business • changes in liquid assets. <p>Exemplar response:</p> <p>Eg Money going into and out of the business (1).</p> <p>Eg Inflows and outflows of cash (1).</p> <p>Profit</p> <p>Indicative content:</p> <ul style="list-style-type: none"> • revenue greater than expenditure • turnover minus expenses • positive gain from business activities • a trading surplus • money after costs covered • contribution after breaking even • the reward for enterprise. <p>Exemplar responses:</p> <p>Eg An accounting calculation of a positive return on business activities (1).</p> <p>Eg A profit is made when revenue is greater than cost (1).</p>	2	<p>AO1: 2</p> <p>One mark for each correct statement up to a maximum of two statements.</p> <p>Maximum one mark for cash-flow.</p> <p>Maximum one mark for profit.</p> <p>No context required.</p> <p>Answers must be accurate.</p> <p>For cashflow do not award 'inflows and outflows' unless it relates to money flows.</p> <p>Do not award for cashflow statements/forecasts eg do not award 'it is a tool to measure inflows and outflows'.</p> <p>For profit do not award vague or imprecise answers eg do not award 'makes money' or 'takes accounts of costs'.</p> <p>Do not award responses that could relate to revenue or profit eg do not award 'money made after breakeven'.</p>

Question		Answer	Mark	Guidance
3	(b)	<p>Indicative content:</p> <ul style="list-style-type: none"> gross profit only deducts direct costs/cost of goods sold gross profit does not deduct expenses net profit deducts all expenses taxed on net profit not gross profit net profit is overall/final profit net profit is the bottom line figure gross profit would give an inflated view of the business. <p>Exemplar responses:</p> <p>Eg Gross profit is not the final profit (1) because it does not deduct all expenses (1).</p> <p>Eg Gross profit only deducts cost of sales from revenue (1), whereas net profit deducts all costs (1).</p>	2	<p>AO1: 1 AO2: 1</p> <p>One mark for a correct identification, plus a further one mark for an explanation.</p> <p>No context required.</p> <p>Full marks can be achieved without referring to both types of profit. Types can be implied.</p>

Question		Answer	Mark	Guidance
3	(c)	<p>Indicative content:</p> <ul style="list-style-type: none"> interest rates inflation rates unemployment rates exchange rates international trade economic growth recession/lower disposable income government incentives/grants/policies tax changes/breaks credit crunch/availability of finance legal – minimum wage 	4	<p>AO1: 4</p> <p>One mark for each correct identification up to a maximum of two identifications, plus a further one mark for each of two descriptions.</p> <p>NB the question asks for a description (not an explanation). For the second mark the response must explain what the external factor is and not its impact on <i>FFL</i> or why it is important.</p> <p>Factors must be external.</p>

		<ul style="list-style-type: none"> • social trends – healthy eating/obesity • ethical consumerism • environmental awareness/green • changes in technology • supply costs/supplier prices • energy prices • competition • customers cancel orders/dictate prices • bumble bees • weather. <p>Exemplar responses:</p> <p>Eg A recession (1), a period of negative economic growth (1).</p> <p>Eg Interest rates (1), the cost of borrowing money (1).</p>	<p>'Economy', 'trends' alone too vague.</p> <p>No context required.</p>
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Question			Answer	Mark	Guidance
4	(a)	(i)	<p>Indicative content:</p> <ul style="list-style-type: none"> • fallen over the years • gradual improvement • less constant than the industrial average • higher than industrial average in first three years of trading • now below the industrial average • industrial average steady. • FFL was above the industrial average • FFL is now below the industrial average. <p>Exemplar responses:</p> <p>Eg Absenteeism amongst <i>FFL</i>'s staff has fallen over recent years (1) and is now below the current industrial average (1).</p> <p>Eg Absenteeism used to be higher than the industrial average (1) but it is now significantly lower (1).</p>	2	<p>AO2: 2</p> <p>Up to 2 marks.</p> <p>Data interpretation only – do not award meaning of absenteeism/consequences/benefits/drawbacks/causes, etc.</p>

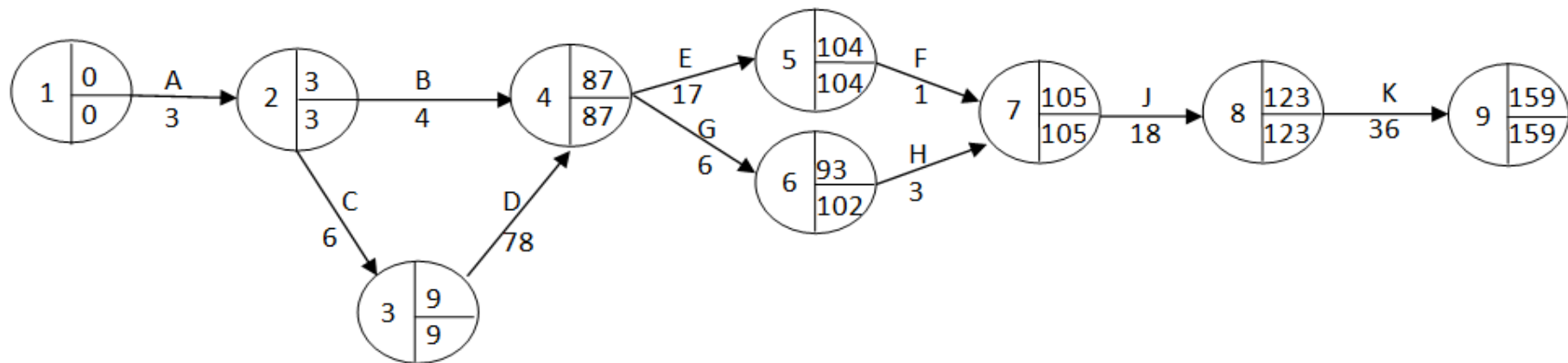
Question			Answer	Mark	Guidance
4	(a)	(ii)	<p>Indicative content:</p> <ul style="list-style-type: none"> consistently lower than the industrial average/ significantly better than the industrial average almost half of the industrial average/twice as good not following the downward trend of the industrial average industrial average figures are relatively stable <i>FFL</i> figures unstable minimum/maximum figure stated. <p>Exemplar responses:</p> <p>Eg <i>FFL</i>'s rate of labour turnover has always been lower than the industrial average (1). For the last two years it has been more than twice as good (1).</p> <p>Eg The rate is not falling in the same way that the industrial average is (1), nevertheless labour turnover at <i>FFL</i> remains significantly better than the industrial average (1).</p>	2	<p>AO2: 2</p> <p>Up to 2 marks.</p> <p>Accept 'between 6 and 10 employees usually leave the farm each year'.</p> <p>Data interpretation only – do not award meaning of labour turnover/consequences/benefits/drawbacks/causes, etc.</p>

Question		Answer	Mark	Guidance
4	(b)	<p>Indicative content:</p> <ul style="list-style-type: none"> • planning skills • mathematical skills • critical/logical/lateral thinking skills • organisation/co-ordination skills • motivational skills • training skills • listening skills • mentoring/counselling skills • problem solving skills • decision making skills • communication skills • people skills/interpersonal skills • conflict management skills • time management skills • prioritisation. <p>Exemplar responses:</p> <p>Eg Leaders should be good communicators (1). Staff will need clear instructions in order to understand what they have to do (1).</p> <p>Eg Leadership requires good interpersonal skills (1). This will allow the leader to be persuasive in difficult situations (1).</p>	6	<p>AO1: 3 AO2: 3</p> <p>One mark for each correct identification up to a maximum of three identifications, plus a further one mark for each of three explanations.</p> <p>Do not award 'managing' or 'management' unless qualified eg time management.</p> <p>Must be skills. Do not award personality traits/attitudes/values. Eg do not award 'confident', 'devoted', 'caring', 'strong', 'being ethical', 'flexible', 'adaptable', etc.</p> <p>No context required.</p> <p>Award any type of development – descriptions, why, how, consequences, analysis, etc.</p>

Question		Answer	Mark	Guidance
4	(C*)	<p>Use levels of response criteria.</p> <p>Indicative content:</p> <ul style="list-style-type: none"> • will current staff be willing/able to move? • impact on employer/employee relations • impact of loss of valuable staff – training, ethos • effect on motivation • increase riskiness of option • inertia/resentment • withdrawal of goodwill? • double output but only 40% more workers • impact on wage rate minimum wage • impact on absenteeism • impact on labour turnover • impact on productivity • impact on wastage • need to select and recruit more staff • new contracts of employment • training – new and current staff • span of control of 70 too large for Maria/impact of hierarchical/more formal structure • supervisors/managers required • empowerment • environmental issues – increase travel miles • ethical/good employer – treats staff well • impact on time • impact on costs, revenue and profitability. 	14	<p>AO1: 2 AO2: 3 AO3: 4 AO4: 5</p> <p>QWC is assessed in this question.</p> <p>Levels of response</p> <p>Level 4 (10 - 14 marks) Candidate evaluates likely staffing issue(s) which might arise if <i>FFL</i> takes Option 1.</p> <p>Level 3 (6 - 9 marks) Candidate analyses likely staffing issue(s) which might arise if <i>FFL</i> takes Option 1.</p> <p>Level 2 (3 – 5 marks) Candidate applies knowledge and understanding of staffing issue(s) which might arise if <i>FFL</i> takes Option 1.</p> <p>Level 1 (1 – 2 marks) Candidate identifies staffing issue(s) with no use of context.</p> <p>Please indicate each time a candidate achieves a particular level as this will help you allocate marks within that level.</p> <p>Context should be annotated every time L2/L4 is awarded with the 'CONT' annotation.</p> <p>Non-contextual answer max Level 1.</p>

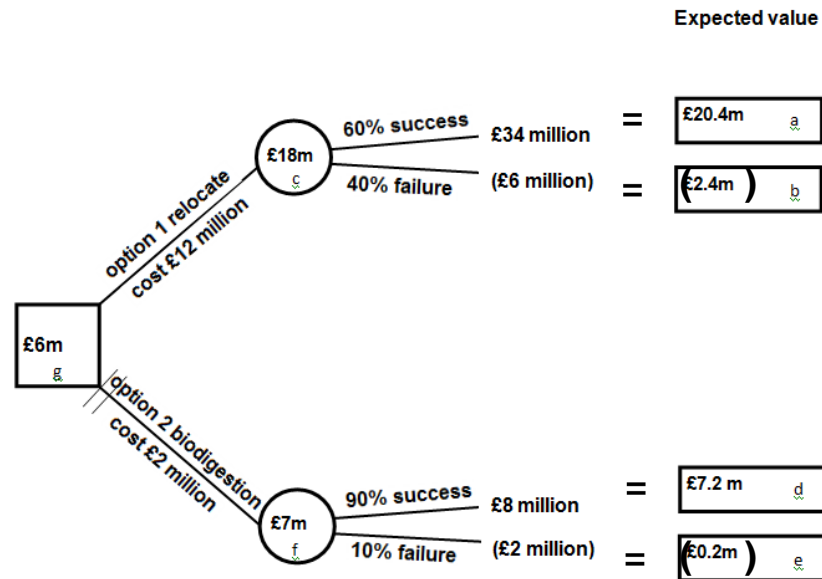
Question	Answer	Mark	Guidance
	<p>Exemplar response:</p> <p>Eg Workers are frequently unwilling or unable to relocate (L1). Some of <i>FFL</i>'s staff who rely on public transport (CONT) may be unable to get to Larvil and will have no option but to leave (L2). <i>FFL</i> would need to recruit new members of staff to replace those who have left (L3). This recruitment process will take up a lot of Maria's time (L3) and increase <i>FFL</i>'s costs (L3). However, the number of staff who choose to leave might not be as big a problem at <i>FFL</i> than at many other farms because workers will want to continue working for <i>FFL</i> if at all possible because employer-employee relationships there are good (CONT) and Maria is an excellent leader (L4).</p>		<p>Context must be more than name dropping (do not award for <i>FFL</i>, Gino or Maria).</p> <p>Do not award 'redundancy'.</p>

Question		Answer	Mark	Guidance
5	(a)	Indicative content: <ul style="list-style-type: none"> • B = 4 • E = 17 • G = 6 • Node 2 3/3 • Node 4 87/87 • Node 5 104/104 • Node 6 93/102. 	11	AO1: 6 AO2: 5 Up to eleven marks. No OFR.



Question		Answer	Mark	Guidance
5	(b)	<p>Indicative content: No change to completion time. $159 + 0 = \mathbf{159 \text{ weeks}}$</p> <p>Exemplar response:</p> <p>Eg 159 weeks (2)</p> <p>Eg 159 (1)</p> <p>Eg It would not affect the completion time (1).</p> <p>Indicative content: Delay completion by 12 weeks. $159 + 12 = \mathbf{171 \text{ weeks}}$</p> <p>Exemplar response:</p> <p>Eg 171 weeks (2)</p> <p>Eg 171 (1)</p> <p>Eg It would add 12 weeks to the completion time (1).</p>	4	<p>AO1: 2 AO2: 2</p> <p>Up to two marks.</p> <p>159 weeks = 2 marks</p> <p>159 with incorrect/no unit = 1 mark.</p> <p>Award max 1 mark for 'no change'.</p> <p>Up to two marks.</p> <p>171 weeks = 2 marks</p> <p>171 with incorrect/no unit = 1 mark.</p> <p>Award max 1 mark for 'extra 12 weeks'.</p>

Question		Answer	Mark	Guidance
6	(a)	<p>Indicative content: a £20.4m b (£2.4m) c £18m d £7.2m e (£0.2m) f £7m g £6m</p> <p>Full marks (7) for £6 million in answer box g.</p> <p>or: 1 mark for each correct response in boxes a - f (note: b and e are negative).</p>	7	<p>AO1: 4 AO2: 3</p> <p>Up to seven marks.</p> <p>Award full marks for £6 million (£6,000,000) in box g (irrespective of whether other boxes are completed or correct).</p> <p>No marks for workings unless a clear indication as to which node or box (a - g) the figure relates.</p> <p>No OFR.</p>



Question		Answer	Mark	Guidance
6	(b)	<p>Indicative content:</p> <ul style="list-style-type: none">Option 2 - Biodigestion. <p>Exemplar responses:</p> <p>Eg Biodigestion (1).</p> <p>Eg Option 2 (1).</p> <p>Indicative content:</p> <ul style="list-style-type: none">Option 1 - Relocation. <p>Exemplar responses:</p> <p>Eg Relocation (1).</p> <p>Eg Option 1 (1).</p>	2	<p>AO2: 2</p> <p>For one mark.</p> <p>For one mark.</p>

Question	Answer	Mark	Guidance
6 (c)	<p>Use levels of response criteria.</p> <p>Indicative content:</p> <ul style="list-style-type: none"> • quantifies decision-making • pseudo-scientific • relies on probability • expected returns and probabilities look like fact • probabilities of success/failure are impossible to accurately determine • figures for long term options are difficult to estimate • Maria has guessed at expected returns and chances of success/failure • easy to bias/manipulate – drawn up by Maria • Maria is good with figures • Maria prefers Option 1 – figures enhanced? • shows expected value/return • expected value for Option 1 is highest at £6m • Option 1 costing figures are only provisional • Option 2 – consultant’s figures – enhanced? • ignores time factors – long term option – 20 years • ignores qualitative factors, eg staffing issues (Opt1), loss of control (Opt 2), risk (Ansoff) • ignores business goals/mission statement, eg ethical and environmental concerns • does not account for changes in external factors • should use it with another tool • visual tool. <p>Exemplar response:</p> <p>Eg Decision trees allow entrepreneurs to take account of the likelihood of success or failure when considering the options (L1). Maria, who is good with figures (CONT), will</p>	8	<p>AO1: 2 AO2: 2 AO3: 2 AO4: 2</p> <p>Levels of response</p> <p>Level 4 (7 - 8 marks) Candidate evaluates the usefulness of this decision tree to <i>FFL</i>.</p> <p>Level 3 (5 - 6 marks) Candidate analyses the usefulness of this decision tree to <i>FFL</i>.</p> <p>Level 2 (3 – 4 marks) Candidate applies knowledge and understanding of the strength(s)/weakness(es) of this decision tree to <i>FFL</i>.</p> <p>Level 1 (1 – 2 marks) Candidate identifies the strength(s)/weakness(es) of decision trees with no use of context.</p> <p>Accept arguments relating to strengths/weakness of decision trees as a tool and arguments which relate to the data on this particular decision tree.</p> <p>Please indicate each time a candidate achieves a particular level as this will help you allocate marks within that level.</p> <p>Context should be annotated every time L2/L4 is awarded with the ‘CONT’ annotation.</p> <p>Non-contextual answer max Level 1.</p> <p>Context must be more than name dropping (do not award for <i>FFL</i>, Gino or Maria).</p>

Question	Answer	Mark	Guidance
	<p>be able to factor into the decision making process the chances of success of both options (L2). However, given the long-term nature of the options (CONT), be it relocation or using renewable energy, the expected returns will be very difficult to estimate (L2). This will make the expected value inaccurate and the decision tree unreliable (L3). Given the inherent unreliability of the figures on a decision tree and the fact that Maria is biased towards Option 1 (CONT) and can easily manipulate the figures the usefulness of this decision tree to <i>FFL</i> is severely limited (L4).</p>		

Question	Answer	Mark	Guidance
7	<p>Use levels of response criteria.</p> <p>Indicative content:</p> <ul style="list-style-type: none"> • degree of risk – shareholders not afraid to take risks • ethical and environmental beliefs not compromised • mission statement – ethical/environmental ideals • attitude/preferences of shareholders – favours Gino’s environmental beliefs • chances of success – decision tree • capital cost • expected value • reduced costs – heating and lighting, liquid fertiliser • additional income streams – electricity, compost • improve net profit margins • improve cash-flow • loss of earnings – Option 2 - 45% return to equity provider • loss of control? – Option 2 • financing the options – borrowing requirement (Option 1), equity funded (Option 2) • future interest rates (Option 1) • previous loan – still several years to run • profitability • NPV/Payback • planning permission/set up time • risk – Ansoff’s Matrix • knowledge of the biodigestion process? • staff to oversee the biodigester • daily sampling – inconvenient, time, cost? • regular maintenance – time, cost? • lifetime of digester • planning permission/set up time – Option 1 - 3 years+ 	20	<p>AO1: 2 AO2: 4 AO3: 6 AO4: 8</p> <p>Levels of response</p> <p>Level 4b (17 - 20 marks) Candidate evaluates Maria and Gino’s decision to take Option 2 using specific contextual argument.</p> <p>Level 4a (13 - 16 marks) Candidate evaluates Maria and Gino’s decision to take Option 2 using general contextual argument.</p> <p>Level 3 (7 - 12 marks) Candidate analyses Option 1/Option 2.</p> <p>Level 2 (3 - 6 marks) Candidate applies knowledge and understanding of Option 1/Option 2.</p> <p>Level 1 (1 - 2 marks) Candidate identifies factor(s) involved in strategic decision making with no use of context.</p> <p>Do <u>not</u> award marks for repeating the case study.</p> <p>Award L4 to a candidate who following on from their analysis (L3 must have been awarded) makes an overall judgement regarding Maria and Gino’s decision to choose Option 2.</p> <p>If the evaluation contains no direct contextual reference eg ‘the right choice because it likely to make more profit’ award max 13. Minimum award of 14 for a general contextual evaluation eg ‘the right choice because it is £10m (CONT) cheaper’.</p>

Question	Answer	Mark	Guidance																											
	<ul style="list-style-type: none"> • staffing issues – Option 1 • effect on performance indicators – absenteeism, labour turnover, wastage, productivity • over reliance on classic tomatoes • little room for expansion if Purple Prince variety proves popular • loss of opportunity to sell premium priced on the vine tomatoes • loss of opportunity to supply vegetable box companies • output insufficient for organic so not viable • supermarket power holds down prices paid to producers of classic tomatoes • no space for future expansion • little opportunity to gain economies of scale • future rises in utility prices • state of the economy • disposable income levels • competition • economic conditions • social trends – size of market, premium trends • practical and operational matters, eg managerial and technical issues. <table style="width: 100%; border: none;"> <thead> <tr> <th style="width: 30%;"></th> <th style="width: 35%; text-align: center;">Option 1 Relocation</th> <th style="width: 35%; text-align: center;">Option 2 Biodigestion</th> </tr> </thead> <tbody> <tr> <td>Cost:</td> <td style="text-align: center;">£12m</td> <td style="text-align: center;">£2m</td> </tr> <tr> <td>Financed by:</td> <td style="text-align: center;">Var Loan 10 years</td> <td style="text-align: center;">Equity provider (45%)</td> </tr> <tr> <td>Payback:</td> <td style="text-align: center;">≈10 years</td> <td style="text-align: center;">≈5 years from set up</td> </tr> <tr> <td>NPV (20 years):</td> <td style="text-align: center;">£18 million</td> <td style="text-align: center;">£7 million</td> </tr> <tr> <td>Decision tree:</td> <td style="text-align: center;">£6 million</td> <td style="text-align: center;">£5 million</td> </tr> <tr> <td>Success:</td> <td style="text-align: center;">60%</td> <td style="text-align: center;">90%</td> </tr> <tr> <td>Failure:</td> <td style="text-align: center;">40%</td> <td style="text-align: center;">10%</td> </tr> <tr> <td>Best case pred:</td> <td style="text-align: center;">£34 million</td> <td style="text-align: center;">£8 million</td> </tr> </tbody> </table>		Option 1 Relocation	Option 2 Biodigestion	Cost:	£12m	£2m	Financed by:	Var Loan 10 years	Equity provider (45%)	Payback:	≈10 years	≈5 years from set up	NPV (20 years):	£18 million	£7 million	Decision tree:	£6 million	£5 million	Success:	60%	90%	Failure:	40%	10%	Best case pred:	£34 million	£8 million		<p>Only award 'risk' if it is qualified, eg Ansoff's, financial</p> <p>Only award 'chance of success' if qualified, eg decision tree.</p> <p>Non-contextual answer max Level 1.</p> <p>Please indicate each time a candidate achieves a particular level as this will help you allocate marks within that level.</p> <p>Context should be annotated every time L2/L4 is awarded with the 'CONT' annotation.</p> <p>Context must be more than name dropping (do not award for <i>FFL</i>, Gino or Maria).</p>
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Question	Answer	Mark	Guidance
	<p>Worst case pred: (£6 million) (£2 million) Ansoff's Market penetration Diversification Exemplar response:</p> <p>Eg It is important to consider the cost of each option when deciding between strategic options (L1). On the face of it Option 2 (CONT) looks like the right decision because it is much cheaper than Option 1 (L2) and could be funded by an equity provider (CONT) without additional borrowing (L2). However, given that the equity provider will have invested its own funds, it is likely that it will want a say in how the farm (CONT) is run (L2). This would mean that Maria and Gino would lose some control of their business (L3), possibly even challenging the couple's decision to be an ethical employer (L3). Sacrificing such a large degree of control for an option which is not as profitable as Option 2 (CONT) (L2) seems a foolish thing to do. Option 1 should have been chosen, not only because it allows the couple to retain control and does not involve any threat to <i>FFL's</i> mission statement (CONT) (L4) but because Option 1 is predicted to make £11 million (CONT) which is more profit than Option 2 over the 20 year lifetime (L4). Profitability is the key to <i>FFL's</i> long term success.</p>		

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