

GCE



Revised GCE
Teacher Guidance
Business Studies

**A21 and A22 Supplementary Questions
and Mark schemes**

For first teaching from September 2016



GCE Business Studies (A21 and A22)

A21 and A22 Supplementary Questions and Mark schemes

Preface

There is already extensive information available on the GCE Business Studies microsite on the content and assessment of the revised GCE.

In the launch event power points (June 2016 and May 2017), there is specific advice on the content and the revised structure of the A21 and A22 examination papers.

This guidance document provides further exemplification of how the content of the specification at A2 may be assessed during the lifetime of the specification.

It is important to note:

- The new specification requires a much more detailed response from candidates than the legacy specification, and where stipulated relevant and thoughtful application to the stimulus material.
- Teachers should use the marking guidance provided along with the marking grids to support their teaching.
- A2 assessment units include some **synoptic** assessment which enables students to gain a holistic understanding of business.
- Extended response answers will be marked holistically as per the exemplars available on the microsite.
- Quality of written communication will be taken into account on the extended response questions.
- Quantitative skills will be assessed across all units; these could be examined in various formats (see page 31 of the specification for details).
- The Business Studies microsite should be reviewed regularly for updated information/content.

For further information/advice please contact:

Jill Armer

(Education Manager)

jarmer@ccea.org.uk

or

Arlene Ashfield

(Specification Support Officer)

aashfield@ccea.org.uk

Business Studies

Sample: Assessment Unit A2 1 Assessing

Strategic Decision Making

TIME

2 hours

INSTRUCTIONS TO CANDIDATES

Write your Centre Number and Candidate Number on the Answer Booklet provided. You may use a calculator.
Answer all questions

INFORMATION FOR CANDIDATES

The total mark for this paper is 90.

Quality of written communication will be assessed in Questions 2, 3, 4 and 5.

Quantitative skills will be assessed in question 2 and 3. Any workings should be clearly shown since marks may be awarded for partially correct solutions.

Figures in brackets down the right hand side of pages indicate the marks awarded to each question or part question.

ADVICE TO CANDIDATES

You are advised to take account of the marks for each part question in allocating the available examination time.

Study the information below and answer all the questions that follow.

Mack Plc

Mack Plc is a public limited company that specialises in building schools, and currently employs 1,000 staff throughout the UK. In recent years it has reported increasing profit levels, benefiting from the growth of sales revenues, market share and new construction projects. The management team in Mack Plc are convinced that a participatory organisational culture both with its employees and its external stakeholders enables it to successfully deliver its strategic goals.

An 'open door' policy between managers and staff exists and two-way communication is frequently used. Team briefings (verbal and written) are used to discuss issues of common employer/employee interest and contributions from all team members are encouraged. The Managing Director commented that '... the use of team briefings helps to keep staff motivation levels high. In addition, staff often contribute new ideas which can be developed further'. Other senior managers are not convinced of the merits of this approach.

At a recent meeting, the Board of Directors of Mack Plc were advised that the economic outlook does not look good. The Government has recently announced substantial cuts to public spending and therefore reductions in the amount of funding available for the construction of new schools in the UK and Northern Ireland. A government spokeswoman indicated that in the future, building contracts must be "... completed on time, within budget, to agreed quality standards and will provide value for money for taxpayers".

Mack Plc's sustainability strategy has enabled the directors to achieve a key business objective of ensuring that the company complies with its environmental obligations. For example, before a school building can be constructed, a series of consultations take place with stakeholders including the government, local community, prospective teachers, parent teacher associations and students.

The issue of using recycled and sustainable materials has been a consistent topic. Kings Plc is a key supplier of building materials to Mack Plc. Kings Plc has recently reported a weak financial position and has issued two profit warnings to shareholders. Summary financial data related to the two companies is summarised in Table 1 on the next page.

Table 1: Summary Financial Data of Mack Plc and Kings Plc

Summary accounting data as at 30 November 2016	Mack plc (£000)	Kings plc (£000)
Capital employed	30 000	16 000
Non-current liabilities	7 500	12 500
Current Assets	7 800	16
Current Liabilities	3 800	5 400
Net Profit for year	6 500	16
Other information:		
Current ratio	2.05:1	0.003:1
Gearing ratio	25%	78%
Return on Capital Employed	22%	0.1%
Labour turnover	5%	23%

Kings Plc specialises in developing environmentally friendly and technologically advanced building products. One such product is called the 'eco-classroom'. This product line is produced in modular units at the factory, shipped as 'flat packs' and assembled on site. The success of the 'eco-classroom' product lies in its unique design, high insulation standards, use of recycled materials and renewable energy, however the 'eco-classroom' product line requires additional funding to support research, product launch and marketing activities, which the management team of Kings Plc have advised is not available. A trade journal recently published industry benchmarks (averages) in respect of key accounting ratios for the 'Top 100' construction businesses – the Current Ratio was 2:1, the Gearing Ratio was 45% whilst the Return on Capital Employed was 20%.

The Board of Directors of Mack plc are considering a takeover bid for Kings Plc. The cost of the takeover (initial investment) will amount to £7.5m. The estimated cash flows arising after the acquisition are summarised in Table 2.

Table 2: Mack Plc Cash Flows post-acquisition

Year 0 (Initial Investment)	Year 1	Year 2	Year 3
-£7,500,000	£2,500,000	£2,500,000	£4,250,000

With respect to the takeover of Kings Plc, the Finance Director has determined that the Net Present Value is likely to be £37 500 (based on a discount factor of 10% per annum), whilst the Payback Period is estimated at 2 years and 215 days (approx.). In addition, the Finance Director has recommended that the takeover proceed. The directors of Mack Plc have accepted the recommendation to launch a takeover bid for Kings Plc, on the expectation that the takeover of Kings Plc will enhance security of supply of building materials, facilitate development of innovative products and achieve business growth.

Answer all questions

- 1 (a) Explain the term 'participatory organisational culture', using the case study information to support your answer. (4)

(b) Explain two reasons why organisational culture might be important to the board of directors of Mack Plc. (6)
- 2 Evaluate the financial performance of Kings Plc compared to the 'industry benchmark' data, using any two accounting ratios stated in Table 1. (15)
- 3 Evaluate the usefulness of Net Present Value (NPV) in relation to the decision of the directors of Mack Plc to launch a takeover bid for Kings Plc. (20)
- 4 Evaluate an internal and an external factor which may influence Mack Plc's key business objective of ensuring that the company complies with its environmental obligations. (20)
- 5 Evaluate the ways in which the published accounts of Kings Plc might be of use to the management team of Mack Plc as an aid to decision making. (25)

THIS IS THE END OF THE QUESTION PAPER

A21 Sample Mark Scheme

- 1 (a) Explain the term ‘participatory organisational culture’, using the case study information to support your answer. (AO1, AO2)

Explanation – 2 Marks available (AO1)

Organisational culture is considered to represent the behaviour of humans within an organisation and staff interpretation of and participation in, such behaviours – typically includes an organisation’s vision, values, norms, systems, symbols, language, assumptions, beliefs, and habits of staff.

Application – 2 Marks available (AO2)

In relation to Mack Plc, organisational culture is deemed to be of a participatory nature, meaning that directors, management, staff and potential customers have an input to the decision making processes of Mack Plc, e.g. team briefings, government input to building contracts.

Marking:

- [1] for basic explanation of term ‘participatory organisational culture’
- [2] for detailed explanation of term ‘participatory organisational culture’
- [1] for basic application to stimulus
- [2] for detailed application to stimulus
- [0] for incorrect answer.

- Valid alternative answers accepted. [4]

- (b) Explain **two** reasons why organisational culture might be important to the board of directors of Mack Plc. (AO1, AO2)

- Active participation is important as it gives staff a chance to engage in two way communication to express their opinions and be involved in making decisions that affect them (e.g. team briefings)
- Motivation – culture is important as employees may be motivated by non-monetary factors, e.g. sense of duty, clear definition of customer needs, innovation (new ‘eco-classroom’).
- More informed decision making – this is important as customers have experience of their requirements, e.g. teaching staff/school management know what it is really like working in school environments - they contribute to decision making with suggestions on new working practices, products and innovation.
- Feedback from stakeholders and a consultative approach is important as it can aid improvements, such as enhanced public relations and enhance reputation for Mack Plc; labour turnover is reported at 5% for Mack Plc compared to 23% for Kings Plc.

Marking:

- [1] for basic explanation of one/two reason(s) why organisational culture might be important to the board of directors of Mack Plc
- [2] for detailed explanation of two reasons why organisational culture might be important to the board of directors of Mack Plc
- [1] for basic application of one/two reason(s) why organisational culture might be important to the board of directors of Mack Plc
- [2] for detailed application of two reasons why organisational culture might be important to the board of directors of Mack Plc
- [0] for incorrect answer.

- Valid alternative answers accepted. [6]

- 2 Evaluate the financial performance of Kings Plc compared to the 'industry benchmark' data, using any **two** accounting ratios stated in Table 1. (AO1, AO2, AO3, AO4)

ROCE (0.1%):

- This is very low, at 0.1%, which indicates very low levels of profitability compared to an industry benchmark of 20%; this has been verified with two profit warnings to shareholders. This implies excessive costs, since funding is required for R & D, product launch and marketing activities for the new 'eco-classroom' product line;
- This is an adverse result, suggesting inadequate cost control however, management can improve this by increasing sales revenues or reducing costs in order to improve profits and in turn, ROCE;

Current Ratio (0.003:1):

- Current liabilities are £5.4m compared to current assets of £16,000, which implies that Kings Plc has little cash available and might have been acquiring raw materials from suppliers on credit, thus unable to meet its short term debts;
- This is an adverse result compared to an industry benchmark of 2:1; however, management can improve this by seeking additional funds to improve cash flow or ensuring that additional funding is available from Mack Plc, upon the completion of the proposed takeover; this would also yield supply chain opportunities aimed at improving the financial position;

Gearing Ratio (78%):

- This is quite high compared to an industry benchmark of 45%, meaning Kings Plc is reliant on debt financing to continue in business, hence making it vulnerable to a takeover, such as that proposed by Mack Plc;
- This is an adverse result since the high level of debt increases financial risk, through an inability to repay long term debts and reduced profitability as a consequence of high levels of interest payments; however, management might reverse this situation through negotiation with lenders in the proposed takeover discussions.

Final Judgement: the financial performance of Kings Plc suggests the company is underperforming relative to the industry benchmarks reported by the 'Top 100' businesses in the industry, i.e. in terms of profitability, liquidity and gearing. Management of the company must address the key issues in order to improve financial performance.

Level 3 [11]-[15]

An excellent response demonstrates:

- Comprehensive and relevant knowledge and understanding of the financial performance of Kings Plc using any two accounting ratios.
- Highly appropriate, clear and logical judgement based on well-focused and sound analysis of the financial performance of Kings Plc.
- Appropriate use of relevant source material, coming to a fully supported judgement.
- An excellent quality of written communication.

Level 2 [6]-[10]

A good response demonstrates:

- Good and accurate knowledge and understanding of the financial performance of Kings Plc using any two accounting ratios.
- Appropriate and logical judgement based on focused analysis of the financial performance of Kings Plc using any two accounting ratios and making mostly appropriate use of relevant source material.
- Good quality of written communication.

Level 3 [1]-[5]

- A basic response demonstrates:
- Basic knowledge and understanding of the financial performance of Kings Plc using accounting ratios.
- Reference to source material may not be appropriate.
- Basic or no judgement, based on limited analysis
- Basic quality of written communication.

- Answer not worthy of credit [0] marks

- Valid alternative answers accepted.

(15)

3 Evaluate the usefulness of Net Present Value (NPV) in relation to the decision of the directors of Mack Plc to launch a takeover bid for Kings Plc. (AO1, AO2, AO3, AO4)

- Investment appraisal results look favourable, NPV of £37,500, therefore the takeover of Kings Plc should proceed as it would yield £37,500 additional cash flows to Mack Plc, once complete;
- Net Present Value method considers the risk profile of the project in terms of risk (use of discount factor of 10%), cash flows and timing of cash flows (£2.5m, £2.5m and £4.25m respectively), which is important to facilitate a quantitative analysis of the decision to proceed with the takeover by Mack Plc;

- Net Present Value is a more robust method of appraising investments, compared to profit based methods; it is also superior to the Payback Period as it adjusts for risk (by use of discounting) whereas the Payback method does not (since the result is 2 years & 215 days) - this should lead to more accurate decision making in Mack Plc;
- Reliability/accuracy of the cash flow estimates needs to be verified, as this may lead to an incorrect decision being taken by the management team in Mack Plc – the anticipated cashflows (£2.5m, £2.5m and £4.25m respectively) may not materialise which could lead to cash difficulties in Mack Plc.
- Net Present Value Method requires assumptions about the cost of capital/discount factor (10%), which assumes the correct rate is being used – an incorrect rate will lead to an incorrect decision to be taken by Mack Plc directors to invest in Kings Plc.
- NPV method provides only a quantitative analysis of the project, which ignores the qualitative issues which may impact the decision making process and eventual outcome – the directors expect the takeover to enhance security of supplies, facilitate innovation and yield business growth, which are not quantifiable at present.

Final judgement: Recommend the use of NPV in relation to the decision of the directors of Mack Plc to launch a takeover bid for Kings Plc as it appears to yield the correct decision enabling the achievement of business objectives, however in practice it is difficult to make accurate predictions regarding project lifespan, cashflows and discount factors which might lead to errors throughout the decision making process.

Level 4 [16]-[20]

An excellent response demonstrates:

- Comprehensive and relevant knowledge and understanding of the usefulness of Net Present Value (NPV) in relation to the decision of the directors of Mack Plc to launch a takeover bid for Kings Plc.
- Highly appropriate, clear and logical judgement, based on well focused and sound analysis of the usefulness of Net Present Value (NPV) in relation to the decision of the directors of Mack Plc to launch a takeover bid for Kings Plc.
- Appropriate use of relevant source material coming to a supported judgement.
- An excellent quality of written communication

Level 3 [11]-[15]

A good response demonstrates:

- Good and accurate knowledge and understanding of the usefulness of Net Present Value (NPV) in relation to the decision of the directors of Mack Plc to launch a takeover bid for Kings Plc.
- Mostly appropriate and logical judgement based on focused analysis of the usefulness of Net Present Value (NPV) in relation to the decision of the directors of Mack Plc to launch a takeover bid for Kings Plc.

- Mostly appropriate use of source material coming to a supported judgement.
- A good quality of written communication

Level 2 [6]-[10]

A satisfactory response demonstrates:

- Satisfactory knowledge and understanding of the usefulness of Net Present Value (NPV) in relation to the decision of the directors of Mack Plc to launch a takeover bid for Kings Plc.
- A suitable, appropriate judgement of the usefulness of Net Present Value (NPV) in relation to the decision of the directors of Mack Plc to launch a takeover bid for Kings Plc based on reasonable analysis
- A sometimes appropriate use of source material, coming to a partially supported judgement of the usefulness of Net Present Value (NPV) in relation to the decision of the directors of Mack Plc to launch a takeover bid for Kings Plc.
- A satisfactory quality of written communication

Level 1 [1]-[5]

A basic response demonstrates:

- Basic knowledge and understanding of the usefulness of Net Present Value (NPV) in relation to the decision of the directors of Mack Plc to launch a takeover bid for Kings Plc.
- Basic judgement of the usefulness of Net Present Value (NPV) in relation to the decision of the directors of Mack Plc to launch a takeover bid for Kings Plc, based on limited or no relevant analysis
- Reference to source material may not be appropriate
- A basic quality of written communication.
- Answer not worthy of credit [0] marks.
- Valid alternative answers accepted. (20)

- 4 Evaluate an internal and an external factor which may influence Mack Plc's key business objective of ensuring that the company complies with its environmental obligations. (AO1, AO2, AO3, AO4)

External:

- Investment Decision: Shareholders are aware that ROCE is 22% which is favourable, implying that Mack Plc and continue to afford to incur expenses aimed at achieving the objective of compliance with environmental obligations; however if ROCE declines, then this will influence the extent to which this can be achieved as discretionary expenditure will cease;
- Environmental Reputation: Shareholders may be attracted to invest in Mack Plc since they are aware of the key objective of ensuring compliance with environmental obligations, which form an impression of effective corporate social responsibility at the company; this in turn would encourage business growth/confidence in Mack Plc;
- Customer Needs: customers require value for money, construction projects which are

completed on time, in budget and innovative; however, customers require higher standards of performance and quality over time; Mack Plc would need to ensure that it adheres to customer requirements in order to enhance its reputation which may not allow it to meet the objective of compliance with environmental obligations;

- Pressure Groups: teachers and parent teacher groups may exert pressure on Mack Plc to deliver products which are innovative and beyond the budgets agreed, in order to meet their own agendas; however, Mack Plc has a participatory culture, therefore extensive consultations take place which would address such concerns – the pressure exerted by such stakeholders could mean that it cannot meet the objective of compliance with environmental obligations;
- Financial: Non-current liabilities amount to £7.5m or 25% of capital; this is relatively low and represents a low financial risk to Mack Plc; however, lenders might be willing to lend funds to Mack Plc in order to fund the achievement of compliance with environmental obligations;

Internal:

- Staffing Issues: employee job security is enhanced with the growth of the company; participative culture in Mack Plc enhances staff working relationships; innovation is encouraged and appears to yield positive results in terms of increased revenues, morale and low staff turnover at 5%; however, staff might seek to become the more dominant partner and thus result in a diversion from achievement of compliance with environmental obligations;
- Management Attitudes – management might be the most influential stakeholder group in this respect since they are responsible for determining strategic policy and business objectives – the attitude of management towards this issue will determine the performance of Kings plc; compliance with environmental obligations will be measured and management held accountable for the extent to which they are achieved.

Final judgement: Mack Plc's key business objective of ensuring that the company complies with its environmental obligations is influenced by both internal and external factors and this is likely to be of importance to a range of stakeholders. Management's attitude to this is likely to be the most dominant influence as the managers can control the activities of the business and take decisions which ensure the company complies with its environmental obligations.

Level 4 [16]-[20]

An excellent response demonstrates:

- Comprehensive and relevant knowledge and understanding of an internal and an external factor which may influence Mack Plc's key business objective of ensuring that the company complies with its environmental obligations.
- Highly appropriate, clear and logical judgement, based on well focused and sound analysis of an internal and an external factor which may influence Mack Plc's key business objective of ensuring that the company complies with its environmental obligations.
- Appropriate use of relevant source material, coming to a fully supported judgement in

relation to an internal and an external factor which may influence Mack Plc's key business objective of ensuring that the company complies with its environmental obligations.

- An excellent quality of written communication.

Level 3 [11]-[15]

A good response demonstrates:

- Sound and accurate knowledge and understanding of an internal and an external factor which may influence Mack Plc's key business objective of ensuring that the company complies with its environmental obligations.
- Highly appropriate, clear and logical judgement, based on focused analysis of an internal and an external factor which may influence Mack Plc's key business objective of ensuring that the company complies with its environmental obligations.
- Mostly appropriate use of relevant source material, coming to a supported judgement in relation to an internal and an external factor which may influence Mack Plc's key business objective of ensuring that the company complies with its environmental obligations.
- A good quality of written communication.

Level 2 [6]-[10]

A satisfactory response demonstrates:

- Satisfactory knowledge and understanding of an internal and an external factor which may influence Mack Plc's key business objective of ensuring that the company complies with its environmental obligations.
- A suitable, appropriate judgement, based on reasonable analysis of an internal and an external factor which may influence Mack Plc's key business objective of ensuring that the company complies with its environmental obligations.
- A sometimes appropriate use of source material, coming to a partially supported judgement in relation to an internal and an external factor which may influence Mack Plc's key business objective of ensuring that the company complies with its environmental obligations.
- A satisfactory quality of written communication.

Level 1 [1]-[5]

A basic response demonstrates:

- Basic knowledge and understanding of an internal and an external factor which may influence Mack Plc's key business objective of ensuring that the company complies with its environmental obligations.
 - Basic judgement based on limited or no relevant analysis of an internal and an external factor which may influence Mack Plc's key business objective of ensuring that the company complies with its environmental obligations.
 - References to source material may not be appropriate
 - A basic quality of written communication.
- Answer not worthy of credit [0] marks.

- Valid alternative answers accepted. (20)

5 Evaluate the ways in which the published accounts of Kings Plc might be of use to the management team of Mack Plc as an aid to decision making. (AO1, AO2, AO3, AO4)

- Directors would use published accounts to judge whether Kings Plc shares were a good investment and or likely to be in the future - they will be interested in profit, product innovation, long term financing, access to scarce resources and supply chain security; this is subject to accuracy of data and financial information contained therein;
- Directors may use published accounts to identify risk and reward – they can ascertain book values of assets and liabilities and consider a fair purchase price to be paid during the acquisition process; this is subject to a due diligence exercise/audit to facilitate decision making;
- Managers would likely use their internal management accounts rather than published accounts but would use ratio analysis to identify problem areas or successful areas – hence the published accounts may be out of date and of limited use for decision making;
- Managers are mainly concerned with efficiency measures, such as profit and the relationship between costs to sales, trading ratios and stock control etc., rather than absolute monetary values as published in the accounts;
- Management need to determine the accuracy of the published accounts – to eliminate the possibility of ‘window dressing’/manipulation as this is unknown and cannot be assessed upon visual inspection of the data;
- Published accounts and ratios more useful if compared with similar businesses and trends over time – managers of Mack Plc need to address this issue in their decision making process;
- Qualitative data is also needed e.g. the objectives and skills of the management team especially for assessing the likely outcome of a takeover such as that of Kings Plc, which is not disclosed in the published accounts, thus limiting scope for decision making in Mack Plc.

Final Judgement: it is likely that the published accounts of Kings Plc will be of limited use to the management team of Mack Plc as it will increase their awareness of underperformance, but also be aware that the information is historical, as they ensure that the investment in the company is worthwhile and enables achievement of business objectives.

Level 4 [20]-[25]

An excellent response demonstrates:

- Comprehensive and relevant knowledge and understanding of the ways in which the published accounts of Kings Plc might be of use to the management team of Mack Plc as an aid to decision making.
- Highly appropriate, clear and logical judgement, based on well focused and sound analysis of the ways in which the published accounts of Kings Plc might be of use to the management team of Mack Plc as an aid to decision making.
- Appropriate use of relevant source material, coming to a fully supported judgement of the

ways in which the published accounts of Kings Plc might be of use to the management team of Mack Plc as an aid to decision making.

- An excellent quality of written communication.

Level 3 [14]-[19]

A good response demonstrates:

- Sound and accurate knowledge and understanding of the ways in which the published accounts of Kings Plc might be of use to the management team of Mack Plc as an aid to decision making.
- Highly appropriate, clear and logical judgement, based on focused analysis of the ways in which the published accounts of Kings Plc might be of use to the management team of Mack Plc as an aid to decision making.
- Mostly appropriate use of relevant source material, coming to a supported judgement of the ways in which the published accounts of Kings Plc might be of use to the management team of Mack Plc as an aid to decision making.
- A good quality of written communication.

Level 2 [8]-[13]

A satisfactory response demonstrates:

- Satisfactory knowledge and understanding of the ways in which the published accounts of Kings Plc might be of use to the management team of Mack Plc as an aid to decision making.
- A suitable, appropriate judgement of the ways in which the published accounts of Kings Plc might be of use to the management team of Mack Plc as an aid to decision making.
- A sometimes appropriate use of source material, coming to a partially supported judgement of the ways in which the published accounts of Kings Plc might be of use to the management team of Mack Plc as an aid to decision making.
- A satisfactory quality of written communication.

Level 1 [1]-[7]

A basic response demonstrates:

- Basic knowledge and understanding of the ways in which the published accounts of Kings Plc might be of use to the management team of Mack Plc as an aid to decision making.
- Basic judgement of the ways in which the published accounts of Kings Plc might be of use to the management team of Mack Plc as an aid to decision making based on limited or no relevant analysis.
- References to source material may not be appropriate
- A basic quality of written communication.
- Answer not worthy of credit [0] marks.

- Valid alternative answers accepted.

(25)

Business Studies

Sample: Assessment Unit A2 2 Assessing

Strategic Decision Making

TIME

2 hours

INSTRUCTIONS TO CANDIDATES

Write your Centre Number and Candidate Number on the Answer Booklet provided. You may use a calculator.
Answer all questions

INFORMATION FOR CANDIDATES

The total mark for this paper is 90.

Quality of written communication will be assessed in Questions 2, 3, 4 and 5.

Quantitative skills will be assessed in question 3 and 4. Any workings should be clearly shown since marks may be awarded for partially correct solutions.

Figures in brackets down the right hand side of pages indicate the marks awarded to each question or part question.

ADVICE TO CANDIDATES

You are advised to take account of the marks for each part question in allocating the available examination time.

THE COMPETITIVE BUSINESS ENVIRONMENT

Study the information in the case study and answer the questions that follow.

Mash Direct Limited

Mash Direct Limited is a private limited company located in County Down, specialising in producing quality, convenient potato and vegetable dishes. The management team's objective is to ensure growth of the business and they are keen to pursue a number of strategies aimed at achieving this. Mash Direct Limited's participation in the global market has resulted in increased levels of sales revenues and profitability.

A sample of the company's product range is summarised in Table 1 below:

Table 1: Mash Direct Limited Product Range

PRODUCT LINE	PRODUCT
Everyday Mash	Mashed Potato
Easy Lunch (Mash Pots)	Sausages and mash
Family Favourites	Leeks and a Cheese Sauce
Seasonal	St. Patrick's Day Mash
BBQ Favourites	Chilli Baby Bakes
Croquettes	Potato Croquettes
Make it a Meal	Duck Fat Roast Potatoes
Vegetable Burgers	Vegetable Burgers with Spring Cabbage

Innovation is important when developing new products. Mash Direct Limited state that: "... [our food is] steam cooked to perfection to ensure the delicious taste and texture of homemade food", thus representing a unique selling point for the business. The product range is suitable for microwave and oven heating, free from artificial flavourings, preservatives and colourings, and is low in salt.

The management team are currently pursuing a strategy of 'new product development' in respect of the 'Easy Lunch (Mash Pots)' product line, which would allow Mash Direct Limited to take advantage of the lunchtime consumer market.

Feedback from customers indicates that 'convenience' is paramount. Competitive pricing of the product range is also an important consideration in the global convenience food market.

Market research already undertaken by staff enables the company to pursue a Corporate Social Responsibility strategy, aimed at meeting the needs of customers in markets such as the 'healthy lifestyle' market (e.g. customers who prefer to consume healthier foods to match their lifestyles, for example users of gyms/leisure facilities).

The company has won a number of prestigious awards, including for example, the Grocer New Product Award in the Meal Accompaniments Category (2014). The management team and staff actively engage in a range of policies which support their corporate social responsibilities, particularly in respect of product design, production processes and successful marketing of the company's product range. Food safety is of paramount importance to the company.

The company sells its product range in both domestic and international markets. The company currently exports its product range to customers in Europe and the Middle East. In addition, Mash Direct Limited recently won a contract to supply seven product lines to Asda, which will see its products available in almost 200 Asda stores across England.

The international market represents a significant proportion of the company's sales revenues (currently estimated at 70%), allowing the business to take advantage of economies of scale.

A new market currently being considered by the management team is the export of a range of the company's products to consumers located in the United States of America (USA). The use of direct air flights between Ireland and the USA affords Mash Direct Limited a competitive advantage, since this allows distribution of the company's products direct to American consumers. However, participation in global trading is risky for all Northern Ireland businesses, including Mash Direct Limited. Risks include (but are not limited to):

- exposure to volatile exchange rates which may decrease profitability;
- the imposition of trade barriers by a foreign government and increased costs resulting from transport/logistical activities; and
- product design and product promotion activities related to specific overseas markets.

The following data given in Table 2 below, has recently been reported:

Table 2: Mash Direct Limited Key Performance Indicators

Key Performance Indicators	2013	2012
Sales Revenue	£10.66m	£9.51m
Gross Profit	£0.61m	£0.47m

The management team at Mash Direct Limited actively pursue a strategy of sustainability. Examples of such activities undertaken by the company include:

- recycling water on company premises;
- crop rotation and efficient soil management of their farmland;
- recycling waste from production processes (e.g. vegetable peelings can be used for animal feeds); and
- efficient stock management.

These policies enable the company to compete more effectively in the global market.

As part of the global marketing strategy, Mash Direct Limited operate a website (www.mashdirect.com). This assists with product promotion activities and the management team use various forms of social media (including Facebook, Twitter, YouTube and Pinterest) as part of a dedicated E-Business Strategy. However, the website does not currently enable customers to purchase the company's products online. Other promotional activities include sponsorship activities, use of an effective public relations strategy and excellent standards of customer support.

In order to assist Northern Ireland companies to compete more effectively in the global market, the Northern Ireland Assembly recently announced its intention to lower the rate of Corporation Tax from 20% to 12.5% – comparable to the rate of Corporation Tax levied in the Republic of Ireland.

The company currently has job vacancies and is intending to recruit staff to roles such as customer support and product ambassadors to support a customer-led global marketing strategy.

The management team are reviewing two strategic investment proposals aimed at increasing future profitability of the business. Due to budgetary constraints, only the most profitable proposal will be implemented.

Proposal 1: USA Market

The directors are considering the total costs/benefits of exporting some of their product lines to consumers in the USA. It is estimated that up to 318 million potential customers might be interested in this product range if it is exported to the USA. The estimated sales revenues amount to £585 800, whilst the estimated variable costs amount to £319 400.

Market research suggests that consumer tastes in the USA are similar to those in Northern Ireland, management are confident that they can benefit from economies of scale in this particular market in order to achieve greater levels of sales quantities and sales revenues, compared to the European market.

Proposal 2: European Market

The directors are considering the total costs/benefits of exporting some of their product lines to consumers in Europe. Market research data suggests that approximately 500 million potential customers might be interested in this product range. The estimated sales revenues amount to £396 400, whilst the estimated variable costs amount to £174 650.

Mash Direct Limited may consider licensing or a joint venture to enter either the USA or European market.

Sources: (i) www.mashdirect.com/our-story; (ii) www.mashdirect.com/business; (iii) <http://www.mashdirect.com/enterprise-minister-commends-mash-direct-for-exports-to-dubai>; (iv) Interview with T Hamilton, Director, Mash Direct, 8.10.14.

Using the information provided and your own knowledge and understanding, answer all six questions. Show all your workings as appropriate.

1. Explain two advantages to Mash Direct Limited of using E-business as part of their global marketing strategy. (6)
2. Analyse three ways in which sustainable activities might impact on the competitiveness of Mash Direct Limited. (9)
3. Mash Direct Limited's Gross Profit Margin has been calculated as 4.94% and 5.72% for the financial periods 2012 and 2013 respectively. Evaluate the key issues which might have caused a change in profitability in Mash Direct Limited. (15)
4. Evaluate the possible effects of the government's proposal to reduce the rate of Corporation Tax in Northern Ireland from 20% to 12.5%, on Mash Direct Limited. (20)
5. The directors of Mash Direct have decided to proceed with Proposal 1, and enter the American market (USA). Evaluate the potential impact of this decision on their stated objective of ensuring growth of the business. (20)
6. Evaluate joint ventures as a method of entering the global market for Mash Direct Limited. (20)

THIS IS THE END OF THE QUESTION PAPER

A2 2 Sample Mark Scheme

- 1 Explain **two** advantages to Mash Direct Limited of using E-business as part of their global marketing strategy. (AO1, AO2)
- Available 24/7: allowing Mash Direct Limited to be continuously exposed to a wide audience at all times;
 - Global exposure: accessible worldwide providing free publicity for the company;
 - Economies of Scale: the company can gain additional sales and economics of scale from orders placed informally using 'contact us' facilities on their business website;
 - Corporate Image: allows Mash Direct Limited to maintain a high profile corporate image due to use of social media (e.g. Twitter, Pinterest and Facebook) and online customer support.

Marking:

- [1] for basic explanation of **one/two** advantage(s) to Mash Direct Limited of using E-business as part of their global marketing strategy
- [2] for detailed explanation of **two** advantages to Mash Direct Limited of using E-business as part of their global marketing strategy
- [1] for basic application of **one/two** advantage(s) to Mash Direct Limited of using E-business as part of their global marketing strategy
- [2] for detailed application of **two** advantages to Mash Direct Limited of using E-business as part of their global marketing strategy
- [0] for incorrect answer.
- Valid alternative answers accepted. (6)

- 2 Analyse **three** ways in which sustainable activities might impact on the competitiveness of Mash Direct Limited. (AO1, AO2, AO3)

Sustainable activities – these might impact the competitiveness of Mash Direct Limited in the following ways:

- Increased profits: profits can increase (from £0.61m) through achievement of sustainable cost reductions – an example is recycling of water on company premises;
- Increased efficiency: productivity and output can increase through crop rotation and efficient soil management of farmland;
- Improved corporate image: recycling waste from production processes provides a sustainable supply of animal feed for alternative markets and improves the corporate image of Mash Direct Limited.
- Valid alternative answers accepted.

Level 3 [7]-[9]

An excellent response demonstrates:

- Well-focused and sound analysis of three ways in which sustainable activities might impact

the competitiveness of Mash Direct Limited.

- Comprehensive knowledge and understanding of all three ways in which sustainable activities might impact the competitiveness of Mash Direct Limited.
- Thorough use of relevant source material to support the analysis of all three ways in which sustainable activities might impact the competitiveness of Mash Direct Limited.
- An excellent quality of written communication.

Level 2 [4]-[6]

A good response demonstrates:

- Focused analysis of up to three ways in which sustainable activities might impact the competitiveness of Mash Direct Limited.
- Good knowledge and understanding of up to three ways in which sustainable activities might impact the competitiveness of Mash Direct Limited.
- Good use of relevant source material to support analysis of up to three ways in which sustainable activities might impact the competitiveness of Mash Direct Limited.
- A good quality of written communication.

Level 1 [1]-[3]

A basic response demonstrates:

- Basic analysis of the appropriate ways in which sustainable activities might impact the competitiveness of Mash Direct Limited.
- Basic knowledge and understanding of the appropriate ways in which sustainable activities might impact the competitiveness of Mash Direct Limited.
- Limited use of source material to analyse one, two or three appropriate ways in which sustainable activities might impact the competitiveness of Mash Direct Limited.
- A basic quality of written communication.

Answers not worthy of credit 0 marks.

(9)

- 3 Mash Direct Limited's Gross Profit Margin has been calculated as 4.94% and 5.72% for the financial periods 2012 and 2013 respectively. Evaluate the key issues which might have caused a change in profitability in Mash Direct Limited. (AO1, AO2, AO3, AO4)

Issues which might have caused a change in profitability in Mash Direct Limited may include:

- Increased sales revenues: sales revenues have increased by a total of £1.15m as a result of trading internationally in the Middle East and European Markets which Mash Direct Limited's competitors may not have access to, hence an increase in margin as reported;
- Economies of Scale: increased exposure to international markets implies that greater quantities can be sold, with little increase in production costs, hence costs can be contained/reduced leading to increased profit margins over time to 5.72%;
- Efficient Stock Management: less waste could lead to cost reductions/reduced expenses which result in an increased profit margin for Mash Direct, from 4.94% to 5.72%;

- Vertical Integration: Mash Direct Limited have access to their own farmlands which will ensure reliability of supply and would reduce fluctuations in the cost of raw materials.

Final judgement: Mash Direct Limited must review the issues of pricing, cost control and efficiencies in order to continue to improve profit margins, however some issues may be beyond the control of management, e.g. changes in exchange rates which affect costs/revenues and taxes levied on the business. All of these issues will affect the change in financial performance.

- Valid alternative answers accepted.

Level 3 [11]-[15]

An excellent response demonstrates:

- Comprehensive and relevant knowledge and understanding of the key issues which might have caused a change in profitability in Mash Direct Limited.
- Highly appropriate, clear and logical judgement based on well focused analysis of the key issues which might have caused a change in profitability in Mash Direct Limited, making appropriate use of relevant source material.
- An excellent quality of written communication.

Level 2 [6]-[10]

A good response demonstrates:

- Sound and accurate knowledge and understanding of the key issues which might have caused a change in profitability in Mash Direct Limited.
- Appropriate and logical judgement based on focused analysis of the key issues which might have caused a change in profitability in Mash Direct Limited, making mostly appropriate use of relevant source material.
- A good quality of written communication.

Level 1 [1]-[5]

A basic response demonstrates:

- Basic knowledge and understanding of the key issues which might have caused a change in profitability in Mash Direct Limited.
- Basic judgement with limited or no relevant analysis which may or may not be supported, relative to the key issues which might have caused a change in profitability in Mash Direct Limited.
- A basic quality of written communication.
- Answer not worthy of credit [0] marks
- Valid alternative answers will be credited. (15)

- 4 Evaluate the possible effects of the government's proposal to reduce the rate of Corporation Tax in Northern Ireland from 20% to 12.5%, on Mash Direct Limited. (AO1, AO2, AO3, AO4)

Possible Effects:

- Existing and future profits would increase (from £0.61m) at Mash Direct Limited as profits are being assessed at a lower rate of tax, therefore less tax is being paid to government;
- Potentially increased dividends may be paid (from profits of (£0.61m) to shareholders and this may increase shareholder investment in the company;
- Additional profits (as a result of a reduced corporation tax rate of 12.5%), may create an opportunity for increased investment in machinery/equipment, which may enhance the ability of the company to produce goods more efficiently;
- R & D with new innovative products (e.g. Easy Lunch Mash Pots) which will improve the company's offering to customers and potentially the quality of products, thus increasing demand and profits for Mash Direct Limited.
- A lower corporation tax rate (of 12.5%) may increase competition as it could attract global competitors to Northern Ireland. This could affect Mash Direct Limited by reducing their market share. The increased competition may also lead to the possibility of reduced potential for future profits;
- A lower corporation tax rate (12.5%) may entice global corporations to locate to Northern Ireland, as a result, increasing demand for local workers in the labour market. This might lead to a shortage of skilled staff for Mash Direct Limited, even though the company is currently recruiting for roles such as product ambassadors and customer support;
- Higher demand for appropriately skilled staff may mean that the costs of both recruitment and salaries may increase for Mash Direct Limited as additional taxes are payable.

Final judgement: A proposed reduction in corporation tax rate would be hugely beneficial to Mash Direct Limited. It would reduce costs to the business and encourage increased productivity/ efficiency and perhaps encourage future investment in the business, however, other taxes may increase which offset any gains (e.g. national insurance contributions or VAT rates).

- Valid alternative answers accepted.

Level 4 [16]-[20]

An excellent response demonstrates:

- Comprehensive and relevant knowledge and understanding of the possible effects of the government's proposal to reduce the rate of Corporation Tax in Northern Ireland from 20% to 12.5%, on Mash Direct Limited.
- Highly appropriate, clear and logical judgement, based on well focused and sound analysis of the possible effects of the government's proposal to reduce the rate of Corporation Tax in Northern Ireland from 20% to 12.5%, on Mash Direct Limited.
- Appropriate use of relevant source material, coming to a fully supported judgement in relation to the possible effects of the government's proposal to reduce the rate of Corporation Tax in Northern Ireland from 20% to 12.5%, on Mash Direct Limited.
- An excellent quality of written communication.

Level 3 [11]-[15]

A good response demonstrates:

- Sound and accurate knowledge and understanding of the possible effects of the government's proposal to reduce the rate of Corporation Tax in Northern Ireland from 20% to 12.5%, on Mash Direct Limited.
- Appropriate, clear and logical judgement, based on focused analysis of the possible effects of the government's proposal to reduce the rate of Corporation Tax in Northern Ireland from 20% to 12.5%, on Mash Direct Limited.
- Mostly appropriate use of relevant source material, coming to a supported judgement in relation to the possible effects of the government's proposal to reduce the rate of Corporation Tax in Northern Ireland from 20% to 12.5%, on Mash Direct Limited.
- A good quality of written communication.

Level 2 [6]-[10]

A satisfactory response demonstrates:

- Satisfactory knowledge and understanding of the possible effects of the government's proposal to reduce the rate of Corporation Tax in Northern Ireland from 20% to 12.5%, on Mash Direct Limited.
- A suitable, appropriate judgement, based on focused analysis of the possible effects of the government's proposal to reduce the rate of Corporation Tax in Northern Ireland from 20% to 12.5%, on Mash Direct Limited.
- A sometimes appropriate use of source material, coming to a partially supported judgement in relation to the possible effects of the government's proposal to reduce the rate of Corporation Tax in Northern Ireland from 20% to 12.5%, on Mash Direct Limited.
- A satisfactory quality of written communication.

Level 1 [1]-[5]

A basic response demonstrates:

- Basic knowledge and understanding of the possible effects of the government's proposal to reduce the rate of Corporation Tax in Northern Ireland from 20% to 12.5%, on Mash Direct Limited.
- Basic judgement based on limited or no relevant analysis of the possible effects of the government's proposal to reduce the rate of Corporation Tax in Northern Ireland from 20% to 12.5%, on Mash Direct Limited.
- References to source material may not be appropriate
- A basic quality of written communication.
- Answer not worthy of credit [0] marks.
- Valid alternative answers will be credited. (20)

- 5 The directors of Mash Direct have decided to proceed with Proposal 1, and enter the American market (USA). Evaluate the potential impact of this decision on their stated objective of ensuring growth of the business. (AO1, AO2, AO3, AO4)

Potential impacts of global trading:

- 318 million potential customers, implying a very large untapped market for Mash Direct Limited's products; although smaller than European market (Proposal 2), the revenues appear greater, thus suggesting higher sales prices being levied on USA-based customers;
- Additional potential sales revenues of £585,800 for the company;
- Greater contribution to fixed costs of £266,400 which could lead to increased profits for Mash Direct Ltd.;
- Innovative new products within new market segments across USA could allow Mash Direct Limited to increase sales prices and thus increase revenues;
- Increased demand from new markets, coupled with sustainable activities could lead to improved corporate image for Mash Direct Limited and increase growth;
- Increased demand for Mash Direct Limited's products could lead to economies of scale associated with growth opportunities;
- Increased profits may lead to increased dividends for Mash Direct Limited's shareholders, which in turn increases business confidence and growth.
- USA is an unknown market with many market segments, nationalities and cultures – more market research may be required, with no guarantee of success in achieving the objective of business growth;
- Fluctuating exchange rates for dollar v sterling could cause uncertainty, with a negative impact on profits (decline from £0.61m);
- Transport/packaging costs to USA may be high, which will affect costs and pricing decisions, which in turn might reduce growth prospects in this market;
- Legislation on labelling and product safety may be different in the USA which could increase production/marketing costs and reduce profit, which in turn reduces growth;
- Import duties in the USA would increase Mash Direct Limited's costs, hence reduce profit (below £0.61m) and growth prospects.

Final judgement: The decision to enter the American market will be of benefit to Mash Direct Limited, as it will increase exposure to a larger customer base, larger market and increase revenues/profits; however, the downside is that costs and competition will increase but in conclusion it would allow achievement of the stated objective of business growth.

- Valid alternative answers accepted.

Level 4 [16]-[20]

An excellent response demonstrates:

- Comprehensive and relevant knowledge and understanding of the potential impact of the decision to adopt Proposal 1, on the stated objective of ensuring growth of the business.
- Highly appropriate, clear and logical judgement, based on well focused and sound analysis of

the potential impact of the decision to adopt Proposal 1, on the stated objective of ensuring growth of the business.

- Appropriate use of relevant source material, coming to a fully supported judgement in relation to the potential impact of the decision to adopt Proposal 1, on the stated objective of ensuring growth of the business.
- An excellent quality of written communication.

Level 3 [11]-[15]

A good response demonstrates:

- Sound and accurate knowledge and understanding of the possible effects of the decision to adopt Proposal 1, on the stated objective of ensuring growth of the business.
- An appropriate, clear and logical judgement, based on focused analysis of the decision to adopt Proposal 1, on the stated objective of ensuring growth of the business.
- Mostly appropriate use of relevant source material, coming to a supported argument in relation to the decision to adopt Proposal 1, on the stated objective of ensuring growth of the business.
- A good quality of written communication.

Level 2 [6]-[10]

A satisfactory response demonstrates:

- Satisfactory knowledge and understanding of the decision to adopt Proposal 1, on the stated objective of ensuring growth of the business.
- A suitable, appropriate judgement, based on reasonable analysis of the possible effects of the decision to adopt Proposal 1, on the stated objective of ensuring growth of the business.
- A sometimes appropriate use of source material, coming to a partially supported judgement in relation to the decision to adopt Proposal 1, on the stated objective of ensuring growth of the business.
- A satisfactory quality of written communication.

Level 1 [1]-[5]

A basic response demonstrates:

- Basic knowledge and understanding of the possible effects of the decision to adopt Proposal 1, on the stated objective of ensuring growth of the business.
- Basic judgement based on limited or no relevant analysis of the possible effects of the decision to adopt Proposal 1, on the stated objective of ensuring growth of the business.
- References to source material may not be appropriate
- A basic quality of written communication.
- Answer not worthy of credit [0] marks.
- Valid alternative answers will be credited. (20)

6 Evaluate joint ventures as a method of entering the global market for Mash Direct Limited. (AO1, AO2, AO3, AO4)

Possible Content:

- Mash Direct Limited could use a joint venture to either strengthen a long-term relationship with another company in another USA-based location (Proposal 1), or to collaborate on short-term projects in other locations, e.g. in the domestic market to increase sales beyond £10.66m;
- For Mash Direct Limited, a joint venture can help a business grow faster, as it may increase productivity and generate greater profits for the business, beyond £0.61m;
- A joint venture may provide Mash Direct Limited access to new distribution networks or markets at lower cost than setting up a new company in the location;
- A joint venture may provide Mash Direct Limited with increased manufacturing capacity at the business partner's location, and thus increase sales revenues beyond £10.66m;
- Mash Direct Limited could share the risks and costs with its new partner, allowing it to access the new market much more cost effectively;
- Mash Direct Limited may not need to borrow additional funds or look for additional investment in order to achieve the stated business objective of growth;
- A business partner's database of customers could be utilised to market Mash Direct Limited's products, and by doing so, would keep costs of research/marketing, down, thus maintaining profit margin at 5.72%;
- A joint venture enables both partners to join forces in purchasing research and development, therefore both would benefit from the potential innovations, enhancing corporate image.
- Mash Direct Limited – difficulties could arise if the objectives of the venture are not totally clear or communicated to both parties, as this may result in wrong decisions being taken;
- Mash Direct Limited may have different objectives to the business partner, which could lead to disharmony and delay in progress of achieving business objectives;
- Mash Direct Limited may have different levels of expertise to that of the other company which could lead to disagreement about how the projects are taken forward, which may limit growth potential;
- Mash Direct Limited may have a different culture and management style from the business partner, thus poor integration and co-operation may be evident and hinder growth prospects;
- Mash Direct Limited may not provide sufficient leadership and support in the early stages of the partnership and this could result in the project not being progressed as they had planned, thus reducing profits below £0.61m;
- The success of the joint venture depends on thorough research and analysis of the potential business partner by Mash Direct Limited's management team, before entering into any agreement; this could be a costly exercise with no guarantee of achieving the objective of business growth beyond sales of £10.66m.

Final judgement: the use of joint ventures to Mash Direct Limited is of critical importance as it would allow the company to enter the global market for its products, thus increasing market share, revenues and profits; however, joint ventures carry significant risks, including the reliability of the business partner which will ultimately determine the success of the joint venture and achievement of business objectives.

Valid alternative answers accepted.

Level 4 [16]-[20]

An excellent response demonstrates:

- Comprehensive and relevant knowledge and understanding of joint ventures as a method of entering the global market for Mash Direct Limited.
- Highly appropriate, clear and logical judgement, based on well focused and sound analysis of joint ventures as a method of entering the global market for Mash Direct Limited.
- Appropriate use of relevant source material, coming to a fully supported judgement in relation to the potential impact of joint ventures as a method of entering the global market for Mash Direct Limited.
- An excellent quality of written communication.

Level 3 [11]-[15]

A good response demonstrates:

- Sound and accurate knowledge and understanding of the possible effects of joint ventures as a method of entering the global market for Mash Direct Limited.
- Highly appropriate, clear and logical judgement, based on focused analysis of joint ventures as a method of entering the global market for Mash Direct Limited.
- Mostly appropriate use of relevant source material, coming to a supported judgement in relation to joint ventures as a method of entering the global market for Mash Direct Limited.
- A good quality of written communication.

Level 2 [6]-[10]

A satisfactory response demonstrates:

- Satisfactory knowledge and understanding of joint ventures as a method of entering the global market for Mash Direct Limited.
- A suitable, appropriate judgement, based on reasonable analysis of joint ventures as a method of entering the global market for Mash Direct Limited.
- A sometimes appropriate use of source material, coming to a partially supported judgement in relation to joint ventures as a method of entering the global market for Mash Direct Limited.
- A satisfactory quality of written communication.

Level 1 [1]-[5]

A basic response demonstrates:

- Basic knowledge and understanding of joint ventures as a method of entering the global market for Mash Direct Limited.
- Basic judgement based on limited or no relevant analysis of joint ventures as a method of entering the global market for Mash Direct Limited.

- References to source material may not be appropriate
- A basic quality of written communication.
- Answer not worthy of credit [0] marks.

- Valid alternative answers will be credited.

(20)



INVESTORS
IN PEOPLE

