

## 7 Analysing the strategic position of a business

### Pizza Dreams plc

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- a Answers may include the following:
- Financial performance is just one aspect that looks at past performance and not future performance. It can also be made to look better than it actually is (it can be 'window dressed').
  - You need to look at other aspects and measures of performance such as operations, marketing and human resources, which will give an all-round picture.
  - The Balanced Scorecard approach tries to look at performance from a wider perspective and includes internal business process (problem of part-time employees, word-of-mouth advertising), customer (praised for its service), learning/growth (growth spectacular in a competitive market) as well as financial (ROCE declining). This provides a more all-round picture of performance. (9 marks)
- b Answers may include the following:
- Yes, Paul is correct. The company's sales revenue and operating profits have both risen between the previous and latest financial years.
  - Yes, Paul is correct. The company's shareholders will be pleased that dividend per share has risen from 9.9p to 12.02p and the dividend yield from 7.73% to 10.02%, and these are good returns.
  - No, Paul is wrong. Although the company's gearing ratio has fallen from 57.27% to 55.43%, it is still high and above 50%.
  - No, Paul is wrong. The company's return on capital has declined from 10.40% to 9.97% and this is a central measure of a business's financial performance.

Themes for evaluation may include the following:

- Paul is at best only partially correct as certain aspects of his company's performance are poor. ROCE is low and falling, and shareholders looking for a long-term return may not agree with him.
- Such a judgement involves a comparison with other companies in the same industry. How do these figures compare with those of Domino's, for example? (16 marks)

Year	Expand existing factory		Discount factor	Build new factory in China	
	Net cash flow (£)	NPV (£)		Net cash flow (£)	NPV (£)
0	(2,500,000)			(4,000,000)	
1	500,000	454,500	0.909	1,000,000	909,000
2	1,000,000	826,000	0.826	1,500,000	1,239,000
3	1,000,000	751,000	0.751	1,500,000	1,126,500
4	1,000,000	683,000	0.683	2,000,000	1,366,000
5	1,000,000	621,000	0.621	2,500,000	1,552,500
		<b>835,500</b>			<b>2,193,000</b>

### Dakota plc

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- a Calculating payback and average rate of return:

	Expand existing factory	Build new factory in China
<b>Payback</b>	3 years	3 years
<b>Average rate of return</b>	$\frac{(4,500,000 - 2,500,000)}{5} = 400,000$ $\frac{400,000}{2,500,000} \times 100 = 16\%$	$\frac{(8,500,000 - 4,000,000)}{5} = 900,000$ $\frac{900,000}{4,000,000} \times 100 = 22.5\%$

Calculating net present value: see table at the bottom of this page

In financial terms, the new factory is the best option. (9 marks)

- b Answers may include the following:
- Financial factors are important. The new factory seems to have a much better return. Even when applying sensitivity analysis, cash flows would need to fall by a significant margin on the new factory.
  - Other factors are important. There is a loyal workforce that has always been treated well. Trust could easily be lost if moved abroad, affecting motivation and engagement.
  - 'Made in Britain' is an important selling point both in the home and overseas market, so expected cash flows may not be as high as expected.
- Themes for evaluation may include the following:
- 'Made in Britain' and the quality associated with this are likely to be more important to long-term future sales.
  - Commitment to the home workforce is likely to be key to maintaining the long-term quality of the product.
  - The short-term promise of greater returns could lead to a long-term decline. (16 marks)

## Essay

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Answers may include the following:

- Producing new products with the latest technology ahead of competitors offers businesses a significant competitive advantage. It provides a USP and can make demand more price inelastic, offering potential to boost revenues and profits. Apple invests regularly in research and development to maintain its role as the market leader.
- Other possibilities include producing ‘me too’ products, copying the ideas of technological leaders. This can offer advantages in increasing revenues to some extent without incurring full research and development costs. For example, Microsoft responded to Apple’s iPod by launching its Zune.
- New technology can be incorporated into production processes rather than the products. This may lower production costs and increase profit margins. Low-cost airlines such as easyJet use internet booking and software to adjust prices in response to demand and to maximise revenues.
- Other businesses opt to publicise their more traditional products that do not incorporate the use of technology. Some traditional pubs, for example, promote the fact that they do not have any gaming machines, music or video systems.

Themes for evaluation may include the following:

- Most approaches to managing technological change involve some degree of risk (Microsoft discontinued production of Zune in 2011). Businesses need substantial financial and human resources to compete successfully.
- It may depend on the position a business wishes to adopt in a market. Some may wish to maintain brand loyalty by incorporating the latest technology. Others opt for low-cost copycat products sold at low prices.

## Using the mark schemes

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These answers give some possible responses, but not all. There are many ways in which most of the questions can be answered and the following mark schemes cannot include all of them. The answers provided are only some possible suggestions. However, there is one exception to this. Questions that are based on calculations have definitive answers and these are provided, although there

may be more than one way to arrive at the correct answer. Ask your teacher or lecturer how to use the mark schemes to select the appropriate level for your answer.

## Mark schemes

a

Level	Descriptor	Marks
1	A limited response. Analysis lacks development, is mainly descriptive with only limited knowledge and understanding of the context of the question set.	1–3
2	A reasonable response. Analysis has some context, but it is not fully developed, demonstrating only a reasonable knowledge and understanding of the question set.	4–6
3	A good response. A well-developed analytical answer in context and using a good range of knowledge to answer the question set.	7–9

b

Level	Descriptor	Marks
1	Limited response — analysis has some context but lacks development, with only a limited knowledge and understanding of the question set. Judgements made but with only limited support and focus on the question set.	1–4
2	Reasonable response — analysis has some context but is not fully developed, demonstrating only a reasonable knowledge and understanding of the question set. Some supported judgement but may not be in context and may lack balance.	5–8
3	Good response — a well-developed analytical answer in context and using a good range of knowledge to answer the question set. Judgements built on analysis and show some balance.	9–12
4	Overall excellent. Analysis is extremely well developed, in context and using a good range of knowledge to answer the question set. Judgements stem clearly from the analysis, are well balanced and answer the question set.	13–16

c Not applicable.

d

Level	Descriptor	Marks
1	Limited response — analysis has some context but lacks development, with only a limited knowledge and understanding of the question set. Judgements made but with only limited support and focus on question set.	1–4
2	Reasonable response — analysis has some context but is not fully developed, demonstrating only a reasonable knowledge and understanding of the question set. Some supported judgement but may not be in context and may lack balance.	5–8
3	Good response — a well developed analytical answer in context and using a good range of knowledge to answer the question set. Judgements built on analysis and show some balance	9–12
4	Overall excellent. Analysis is extremely well developed, in context and using a good range of knowledge to answer the question set. Judgements stem clearly from the analysis, are well balanced and answer the question set.	13–16

## Essay mark scheme

Level	Descriptor	Marks
1	A weak response. Analysis lacks development, is mainly descriptive with only a weak knowledge and understanding of the context of the question set. Judgements are assertions only.	1–5
2	A limited response. Analysis has some context, but it lacks development, with only a limited knowledge and understanding of the question set. Judgements are made, but with only limited support and focus on the question set.	6–10
3	A reasonable response. Analysis has some context, but it is not fully developed, demonstrating only a reasonable knowledge and understanding of the question set. There is some supported judgement, but it may not be in context and may lack balance.	11–15
4	A good response. A well-developed, analytical answer in context and using a good range of knowledge to answer the question set. Judgements are built on analysis and show some balance.	16–20
5	An excellent analysis that is extremely well developed, in context and using a good range of knowledge to answer the question set. Judgements stem clearly from the analysis, are well balanced and answer the question set.	21–25