



BUSINESS AND MANAGEMENT

9771/02

Paper 2 Strategic Decisions

May/June 2017

MARK SCHEME

Maximum Mark: 100

Published

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This document consists of **10** printed pages.

Section 1

Question	Answer	Marks
1(a)	<p>Calculate the Return on Capital Employed (ROCE) as at 27 September 2014.</p> <p>Operating profit / capital employed × 100 (1 mark)</p> <p>= 18 186 / 94 732 – 42 004 = 18 186 / 52 728 (1 mark)</p> <p>Award 1 mark for correct calculation of CE = 52 728</p> <p>= 34.5% (3 marks for correct answer)</p> <p>Allow for rounding variations</p>	3
1(b)	<p>Calculate the current ratio as at 27 September 2014.</p> <p>Current assets / current liabilities (1 mark)</p> <p>53,193 / 42,004 (1 mark)</p> <p>= 1.27 (3 marks for correct answer)</p> <p>Allow for rounding variations</p>	3

Question	Answer		Marks
1(c)	Comment on the significance to TPT directors of the result obtained in either 1(a) or 1(b).		6
	Level	Knowledge AO1 2 marks	Application AO2 4 marks
	2	2 marks: Candidate shows clear and precise knowledge.	3–4 marks: Candidate clearly explains the usefulness of the results using two examples of distinct case context.
	1	1 mark: Candidate shows some knowledge.	1–2 marks: Candidate uses limited case context.
	0	No rewardable response.	
	Return on Capital Employed: OFR rule to be applied		
	Knowledge (K) may include:		
	<ul style="list-style-type: none"> • Definition of ROCE • Useful profitability measure • A useful key performance indicator (KPI) for the directors • Directors can compare ROCE with other potential returns such as bank deposits. • Informs the directors about how effective the capital employed in the business generates profits 		
	Application (P) may include:		
	<ul style="list-style-type: none"> • 34.5% in 2014 v 30.14% in 2013 (trend is up) • Useful profitability benchmark v competition. See table 2 (24% and 20%). TPT has a higher ROCE 		
	ARA		
	Current Ratio: OFR rule to be applied		
	Knowledge (K): may include:		
	<ul style="list-style-type: none"> • Definition • Industry specific 		
	Application (P) may include:		
	<ul style="list-style-type: none"> • 1.27 in 2014 v 1.29 2013 (marginal increase) • Current assets such as the stock of tiles are likely to be relatively quickly turned into cash sales • Regular inflows of cash mean this low value is of less significance • Competitor analysis. See table 2 (1= low liquidity and 2= high opportunity cost). TPT probably has the most favourable value (given the retail sector) • Is the acid test ratio more applicable 		
	ARA		

Question	Answer				Marks
1(d)	<p>Analyse whether TPT will be likely to increase its dividend payment in the future. Use the accounts and any other relevant information to support your answer.</p>				13
	<p>Level</p>	<p>Knowledge AO1 2 marks</p>	<p>Application AO2 5 marks</p>	<p>Analysis AO3 6 marks</p>	
	3		<p>5 marks: Candidate fully engages with the case context and accounts (relevant ratios used)</p>	<p>5–6 marks: Candidate fully develops analytical points.</p>	
	2	<p>2 marks: Candidate shows clear and precise knowledge of dividends.</p>	<p>3–4 marks: Candidate links case material to his answer with some use of the accounts.</p>	<p>3–4 marks: Developed analysis of arguments.</p>	
	1	<p>1 mark: Candidate offers a basic definition / understanding of dividends</p>	<p>1–2 marks: Candidate makes a limited attempt to apply knowledge to the case study.</p>	<p>1–2 marks: Weak analysis of ideas, failure to develop points.</p>	
	0	No rewardable response.			
	<p>Knowledge (K) may include:</p>				
	<ul style="list-style-type: none"> • Definition of dividends or dividend cover 				
	<p>Application (P) may include:</p>				
	<ul style="list-style-type: none"> • Dividend cover ratio: profit for the year / annual dividend cost. 4.04 2014 v 4.81 2013 (well covered dividend) • Trading conditions are positive • Profitability is improving: Gross profit increased to £118 870 000 from £107 023 000, operating profit and ROCE also increased between 2013 and 2014 • Improving economic outlook • Dividend yield is 2.1% in 2014 ($2.25 / 107 \times 100$) in 2013 it was 1.7% ($1.50 / 88 \times 100$) • Directors want to fund growth through internal sources of funds so possibly less money for dividends 				
	<p>Analysis (A) may include:</p>				
	<ul style="list-style-type: none"> • Priority of the directors. Market share v dividend growth • Shareholders are likely to put pressure on the directors for improving dividends • Depends on strategic goal being reached • Increased competition could threaten profits and therefore dividends • The economic outlook could worsen 				
	ARA				

Section 2

Question	Answer				Marks
2	Discuss whether a sustained decrease in UK unemployment should impact upon the strategic decisions of TPT.				25
	Level	Knowledge AO1 4 marks	Application AO2 5 marks	Analysis AO3 8 marks	Evaluation AO4 8 marks
	3		5 marks Arguments are consistently based upon case context.	6–8 marks Candidate fully develops analytical points.	6–8 marks Extensive, high-quality judgement shown.
	2	3–4 marks Good knowledge / understanding shown.	3–4 marks Candidate makes a good attempt to apply knowledge to the specific case scenario.	3–5 marks Developed analysis of arguments.	3–5 marks Good judgement shown.
	1	1–2 marks Some knowledge / understanding shown.	1–2 marks Candidate makes a very limited attempt to apply knowledge to the specific case study.	1–2 marks Weak analysis of the ideas, failure to develop points.	1–2 marks Weak judgement shown.
	0	No rewardable response.			
	<p>Knowledge (K) may include:</p> <ul style="list-style-type: none"> • Definition of unemployment • Knowledge / definition of ‘strategic decisions’ <p>Application (P) may include:</p> <ul style="list-style-type: none"> • Falling unemployment is a sign of an improving economic outlook • Average real wages are equally important • Falling unemployment should make expansion easier • Falling unemployment often leads to wage growth and the income elasticity demand figure is positive 0.78 • Lower unemployment makes recruitment more difficult (7 more stores opened in the last year) and the case states that falling unemployment is making recruitment more difficult • TPT may find it hard to retain good staff as unemployment falls 				

Question	Answer	Marks
2	<p>Analysis (A) may include:</p> <ul style="list-style-type: none"> • Type of jobs being created and pay levels • Regional differences in unemployment • Falling unemployment improves consumer confidence and may improve DIY spending on tiles • Lower unemployment could lead to higher wage demands increasing costs / prices • Higher living standards may prompt a move to more premium tiles and products • Price elasticity figures (-1.7 and -2.4 may become more elastic) if incomes fall • Lower unemployment could lead to inflation • Should the above points impact upon the strategic decisions of TPT <p>Evaluation (E) may include:</p> <ul style="list-style-type: none"> • Other factors are also crucial such as the state of the housing market • 'should' is a key word in the question • Sustained decrease? Time period? Types of unemployment? • Unemployment is not the only factor to consider <p>ARA</p>	

Question	Answer				Marks
3	Evaluate the use of employee profit sharing at TPT.				25
	Knowledge AO1 4 marks	Application AO2 5 marks	Analysis AO3 8 marks	Evaluation AO4 8 marks	
3		5 marks Arguments are consistently based upon case context.	6–8 marks Candidate fully develops analytical points.	6–8 marks Extensive, high-quality judgement shown.	
2	3–4 marks Good knowledge / understanding shown.	3–4 marks Candidate makes a good attempt to apply knowledge to the specific case scenario.	3–5 marks Developed analysis of arguments.	3–5 marks Good judgement shown.	
1	1–2 marks Some knowledge / understanding shown.	1–2 marks Candidate makes a very limited attempt to apply knowledge to the specific case study.	1–2 marks Weak analysis of the ideas, failure to develop points.	1–2 marks Weak judgement shown.	
0	No rewardable response.				
<p>Knowledge (K) may include:</p> <ul style="list-style-type: none"> • Definition of employee profit sharing • Monetary v non-monetary (a mix) <p>Application (P) may include:</p> <ul style="list-style-type: none"> • Employees favour this approach • Some employees prefer an increase in basic pay • Productivity has increased. Is this due to the profit sharing or other factors • Is the cost sustainable: £9 827 000 in 2014, £6 251 000 in 2013 • Average bonus is £9 827 000 / 1817 = £5408.37 (if shared equally) • Employee incomes are likely to suffer in an economic downturn <p>Analysis (A) may include:</p> <ul style="list-style-type: none"> • Use of relevant motivational theories • Could it continue in a recession • How are profits shared? Is it fair? • Not the only way of motivating staff • Are the KPI fair? • What is the best criteria for deciding how profit sharing is allocated • Profit sharing can lead to resentment and demotivation • Employee incomes are less certain when relying on bonuses 					

Question	Answer	Marks
3	Evaluation (E) may include: <ul style="list-style-type: none">• Is profit sharing more effective than the share scheme• Is manager performance appraisal subjective? ARA	

Question	Answer				Marks
4	<p>‘The primary goal for the business is to take profitable market share’ (Lines 10–11). Recommend and justify a potential strategy for TPT to achieve profitably its target market share.</p>				25
Level	Knowledge AO1 4 marks	Application AO2 5 marks	Analysis AO3 8 marks	Evaluation AO4 8 marks	
3		5 marks Arguments are consistently based upon case context.	6–8 marks Candidate fully develops analytical points.	6–8 marks Extensive, high-quality judgement shown.	
2	3–4 marks Good knowledge / understanding shown.	3–4 marks Candidate makes a good attempt to apply knowledge to the specific case scenario.	3–5 marks Developed analysis of arguments.	3–5 marks Good judgement shown.	
1	1–2 marks Some knowledge / understanding shown.	1–2 marks Candidate makes a very limited attempt to apply knowledge to the specific case study.	1–2 marks Weak analysis of the ideas, failure to develop points.	1–2 marks Weak judgement shown.	
0	No rewardable response.				
<p>Knowledge (K) may include:</p> <ul style="list-style-type: none"> • Definition of market share, profitably, strategy • Application (P) may include: • Target MS is 33%. 9% greater than 2013 (2.7 / 30.3) • Increased competition may make this aim difficult (Table 2 businesses) • Increasing reliance on trade customers could be problematic (lower margins) <p>Analysis (A) may include:</p> <ul style="list-style-type: none"> • Use of a strategic model (Boston, Ansoff, Porter, 4 p’s) • Strategy could focus on higher margin DIY customers • Increased marketing spend • Potential diseconomies of scale <p>Evaluation (E) may include:</p> <ul style="list-style-type: none"> • Profitable market share is key • Depends on the external economic environment <p>ARA</p>					

Question	Answer	Marks
4	<p>A: Providing an inspirational shopping experience</p> <ul style="list-style-type: none">• Store refurbishment• Staff expertise <p>B: Product development</p> <ul style="list-style-type: none">• Increased range of tiles and accessories• Quality of the tiles• Competitive pricing of the tiles• Renewed focus on DIY customers <p>C: Multi-channel distribution</p> <ul style="list-style-type: none">• Open more stores• Improve the online offering	