OCR
Oxford Cambridge and RSA

GCE

Business Studies

Unit **F297:** Strategic Management

Advanced GCE

Mark Scheme for June 2016

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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.

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Subject-specific Marking Instructions

General

- The paper is to be marked to A2 standard.
- Marking should be positive; marks should not be subtracted for errors or inaccuracies.
- Candidates should be regarded as achieving the highest level of response which accurately describes their answer. They do not necessarily have to pass through all lower levels of response.
- In assessing quantitative answers the “own figure rule” (OFR) must be applied, i.e. a candidate must be given credit for calculations which, though wrong, are consistent with an earlier error.
- Materials in italics below refer to possible issues/ content that candidates might use. These suggestions are neither exhaustive nor necessarily required.
- The emphasis throughout this paper should be upon the integration of the material learnt and the context described within the stimulus material. Candidates are expected to treat both in a synoptic manner, considering situations from a variety of perspectives rather than a series of discrete issues by adopting a holistic/ multi-disciplinary approach.

Question		Answer	Mark	Guidance
1	(a)	**The table below shows an updated version of Table 1, incorporating a value for April - June Q2. The trend has been calculated using Times Series Analysis, with a four period moving average.**	**13**	

		Index	Trend	CV
2012	Q3	208.0		
	Q4	124.0		
2013	Q1	96.0	123.5	-27.5
	Q2	64.0	123.5	-59.5
	Q3	212.0	124.0	88.0
	Q4	120.0	125.0	-5.0
2014	Q1	104.0	125.5	-21.5
	Q2	64.0	126.0	-62.0
	Q3	216.0	125.0	91.0
	Q4	120.0	123.0	-3.0
2015	Q1	96.0	121.5	-25.5
	Q2	56.0	121.5	-65.5
	Q3	212.0	123.0	89.0
	Q4	124.0		
2016	Q1	104.0		
	Q2	60.0		
	Q3			

Using Times Series Analysis, and the incomplete graph on page 3, forecast the level of the index for 2016, Q3. You must fill in the blank boxes in the table above.

	Correct	Marks
2015 Q3 Trend	Correct calculation gives **123.0**	2
2015 Q3 CV	Correct calculation gives **89.0**	1
Plot 2015 Q2 & Q3	Trend point at 2015 Q2 + Q3,	1 +1
Extrapolation	Trend point 2016 Q3	2
Read	Trend point at 2016 Q3	2
Av CV for Qtr 3	Correct calculation of **89.3**	2
Forecast	Adds Trend and appropriate ave CV. 2016 Q3 trend + 89.3 = **214.0**	2

	Attempt	Marks
2015 Q3 Trend	Attempts to calculate trend	1
2015 Q3 CV	Attempts to calculate CV	0
Plot 2015 Q2 & Q3	Attempts to plot trend	1
Extrapolation	Trend point 2016 Q3	1
Read	Trend point 2016 Q3 i.e trend read from the end of the x axis scale	1
Av CV for Qtr 3	Attempts to calculate ACV	1
Forecast	Adds 2016 Q3 trend and ave CV	1

Question		Answer	Mark	Guidance
				Remember to apply the own figure rule. NB. The question explicitly requires the use of TSA, not any other forecasting methodology; hence an unsupported but reasonable number scores a max of 1 for attempting a forecast.
1	(b)	**Discuss the appropriateness to VGL of using Time Series Analysis as a strategic tool.** Here TSA is being used to create a revenue budget. Hence whilst it is a short run technique, and hence tactica, at best, it does have some value in setting strategic goals through budgets. Budgets • Allocate • Prioritise • Control • Motivate The more accurate the precise the budgetary process is, the more these advantages will be realised. By setting a feasible budget costs can be controlled and hence laying the foundation for achieving profits. In this way TSA is a useful tool TSA is most effective in an environment of regular, predictable, limited change. The underlying data clearly shows a quarterly pattern hence enabling TSA to be used. The residual CV value is 0.67, again indicating no great turbulence in the index. However, the past cannot always be relied upon to forecast the future, especially in the context of global markets. Any significant macro-economic shock (recession in China?) would seriously undermine the argument that TSA as a useful tool. VGL also operate in an increasingly competitive environment, and the arrival of a new competitor would serve to invalidate much of the historical data that would be used in TSA, again undermining the techniques	**18**	**Levels of response** **Level 4: 18-12 marks** Discussion is evaluative in balancing different possibilities **Level 3: 11-8 marks** Case material is subject to analysis in discussing the possible effect benefits of using TSA in the way the case sets out. **Level 2: 7-4 marks** Describes the advantages and / or disadvantages of TSA as a forecasting method **Level 1: 3-1 marks** Demonstrates knowledge of TSA Default L4 15 L3 10 L2 6 L1 2

Question		Answer	Mark	Guidance
		appropriateness. Further, TSA is used for forecasting revenues gained on the spot market. This is one of VGL's revenue streams, so here TSA only addresses part of their business. Further, TSA is a quantitative tool. Quantitative forecasting alone, ignoring as is does qualitative factors, will be partial. TSA is also a short term, tactical, model. The further ahead from the data one seeks to forecast the greater the opportunity for error to occur. Given strategy is about years ahead, not quarters, its effectiveness is highly doubtful. As a strategic tool it is, therefore, not much use. However, as a tactical tool in seeking to identify when to store and when to sell products, it has uses and as such should not be written off entirely.		
2		**Discuss how significant increase in economic growth might affect the achievement of VGL's 2017 objectives** The question is not limited to UK GDP growth and the best answers will recognise this. Rising international growth will create increase demand for raw materials, so one would expect the internationally traded recycled materials to command higher prices, leading to it being more likely the revenue target will be hit. Significant UK GDP growth will be accompanied by falling unemployment and so rising average domestic incomes. YED for waste is positive but inelastic. An increase in GDP therefore makes the achievement of the revenue target more possible. But the volume of waste will rise proportionately less than income rises caused by economic growth. Historic revenue growth (2014-15) was 9.63%, so it can be argued that a 6% target is modest and so likely to be achieved whatever growth may do. But, if UK GDP rises sterling may strengthen, so making the sterling value of exported materials fall. Case does make it clear that income is not the only	**18**	**Levels of response** **Level 4: 18-12 marks** Discussion is evaluative in balancing different possible viewpoints. **Level 3: 11-8 marks** Case material is subject to analysis in discussing the possible effect of growth upon achieving objectives. **Level 2: 7-4 marks** Describes how growth might effect VGL objectives **Level 1: 3-1 marks** Demonstrates knowledge of growth OR VGL's objectives

Question		Answer	Mark	Guidance
		driver of waste, and societal changes in attitude to packaging might be more acute as the public have greater ability to act. Rising UK GDP will mean a rise in business output, so creating a greater demand from the B to B market. Further, as the UK becomes a more attractive market, competition from foreign firms is likely to become more acute, jeopardising revenue growth. If GDP growth leads to inflation then expect interest rates to rise. This will impact both internally (2014 gearing 56.8%, 2015 gearing marginally down at 55.0%, so less VGL is less exposed to interest rate change) and externally as mortgages and saving ratios change. GDP growth, if accompanied by new entrants to the waste recycling industry, will make gaining new council contracts harder. But growth may boost the income LA get from central govt, enabling LA to enter into more contracts. More waste may not lead to the need for more LA contracts, rather existing bin lorries may simply be fuller. As growth rises and unemployment falls workers have more job options, so labour turnover is likely to rise (assuming that VGL's workers have transferable skills) given where they work is described as 'challenging'. If growth results in VGL's profits rising then the objective of charitable donation becomes more feasible. But, VGL may wish to donate regardless of commercial issues given its stated commitment to people.		An answer that restricts itself to only one objective should be rewarded in the lower half of the appropriate mark range. **Impact on strategic objectives will depend on how much GDP rises by and over what time period. Consideration, and development, of these factors offers a possible route to evaluation.** Default L4 15 L3 10 L2 6 L1 2

Question		Answer	Mark	Guidance
3		**Should VGL enter the textile recycling market? Justify your view.** Textiles would represent a shift from an existing product in an existing markets to a new product into a new market, so according to Ansoff this is diversification. Being the riskiest of the four quadrants it should have the greatest reward. Current reward can be measured by ROCE (2015 4.8%) or ROE (2015 9.8%) so the move to textiles needs to exceed the current reward for current activities to make it worthwhile. Assume that VGL can sort the targeted 200 tonnes per week that is 10,000 tonnes per year (assume a 50 week year), or a 0.5% share of the textile market (not a significant ambition). Further, using a weighted average then net revenues of £210 per tonne is realistic. Cost / Rev / Net Rev / Prob / Ave NR / Ave. Rev 300 / 300 / 0 / 0.1 / 0 / 30 300 / 400 / 100 / 0.2 / 20 / 80 300 / 500 / 200 / 0.3 / 60 / 150 300 / 600 / 300 / 0.3 / 90 / 180 300 / 700 / 400 / 0.1 / 40 / 70 210 / 510 £210 x 10,000 tonnes per year will boost net revenues by £2.1m, or about 6.4% which is above the objectives of a 6% gain. Again, the proposal doesn't look unrealistic in terms of the scale being contemplated. Good answers will question the reliability of the data – to what extent are the data from the managers and Asad in particular, objective? Return on investment is net profit/ capital (2.0m/ 80k cost is 2,500%). Which is obviously well above the current ROI. PBP is 14.6 days. Breakeven is 476t pa (9.16t per week) tonnes per week. Does this venture fit with VGL's four pillars? New venture will dilute	**18**	**Levels of response** **Level 4: 18-12 marks** Achieves an overall recommendation having evaluated possibilities. **Level 3: 11-8 marks** Analysis of the case material supports possible decision. **Level 2: 7-4 marks** Describes a decision with descriptive use of the case material. **Level 1: 3-1 marks** Offers an unsupported decision Default L4 15 L3 10 L2 6 L1 2

Question		Answer	Mark	Guidance
		managerial attention and away from the core activity. Risk, to what extent is the investment expenditure 'sunk'? You can sell a second hand vehicle, but training costs can't be recovered. Capital cost of £80k is 0.16% of capital employed; hence the venture is not significant. VGL have £4 cash, so access to funds looks straightforward. Need to investigate the opportunity cost of the lost storage space, which might mean that the scope to store speculatively waiting for a rise in recycled material prices will be diminished. Hence, VGL may find itself having to sell more of its output at current prices.		
4		**Excluding its potential entry into the textile market, recommend a strategy to improve VGL's performance. Justify your recommendation.** Whatever strategy is created the key is that it will move the business toward its objective. Strategy needs to reflect resources available (or those that could be secured within the time frame), the environment in which VGL operates and it's stakeholders. Strategy could arise from the selection of a preferred way by balancing different possibilities, or a way that is reasoned in its sequence of activities. Performance can be in a variety of areas; finance, Ops, People and Marketing. Contamination and training, analysis of table 2 to yield averages. Shift A B C Pre training 2.75 3.25 2.25 Post training 1.43 2.57 1.43 Gain 1.32 0.68 0.82 Suggests extending the training works in that it has led to the biggest improvement in performance. But, post training shift A is no better than shift C, so is there cause and effect? Is the change for shift A solely due to changes in supervision? Are 4 weeks before and 6 weeks after enough evidence to suggest this is a strategy worth adopting across the entire firm? But as the training is simply the shift supervisor telling staff 'why' it doesn't seem to come with a large cost (other than the inevitable opportunity cost). If the 'training' is so	**23**	**Level 4: 23-17 marks (20)** Recommendation is clearly strategic being supported by case evidence and the sequence of stages for improving performance is reasoned and justified. *Complex ideas have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured, using appropriate technical terminology. There may be few, if any, errors of spelling, punctuation and grammar.* **Level 3: 16-11 marks (14)** Analysis of material supports possible approaches to improve performance, and where more than one is suggested there may be an attempt to offer a sequence or priority. *Relatively straight forward ideas have been expressed with some clarity and fluency. Arguments are generally relevant, though may stray from the point of the question. There will be some errors of spelling, punctuation and grammar, but these are unlikely to be intrusive or obscure meaning.*

Question		Answer	Mark	Guidance
		cheap why wouldn't you use it on shifts B and C as well – unless for some bizarre reason it would cause a fall in performance? Financial; ROCE and PMs suggests the business is already improving. For further improve either create more profit with existing inputs or maintain profits with less inputs. To boost profits the key has to be cost control and rigorous attention to quality so that everything that has been through the processing plant can be sold at top price. NB. Case makes it clear VGL cannot increase price of the recycled materials it produces. But, might it be possible to raise prices for collections? Can any use be made of the website data? Why recycling matters gets 214 hits out of a total of 21,709, i.e. 1%. Can this is broken down into post codes to investigate any link between pre-sorting and website. Is there scope for using the website to 'educate' households, so reducing contamination at source? Bribe households by linking charity donations/ activities with the 'best' post codes.		**Level 2: 10-5 marks (8)** Describes possible discrete steps to improve performance *Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling, punctuation and grammar of which some may be noticeable and intrusive.* **Level 1: 4-1 marks (2)** Offers some unsupported intervention(s) *Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar which will be noticeable and intrusive. Writing may also lack legibility.*

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