

A-LEVEL BUSINESS

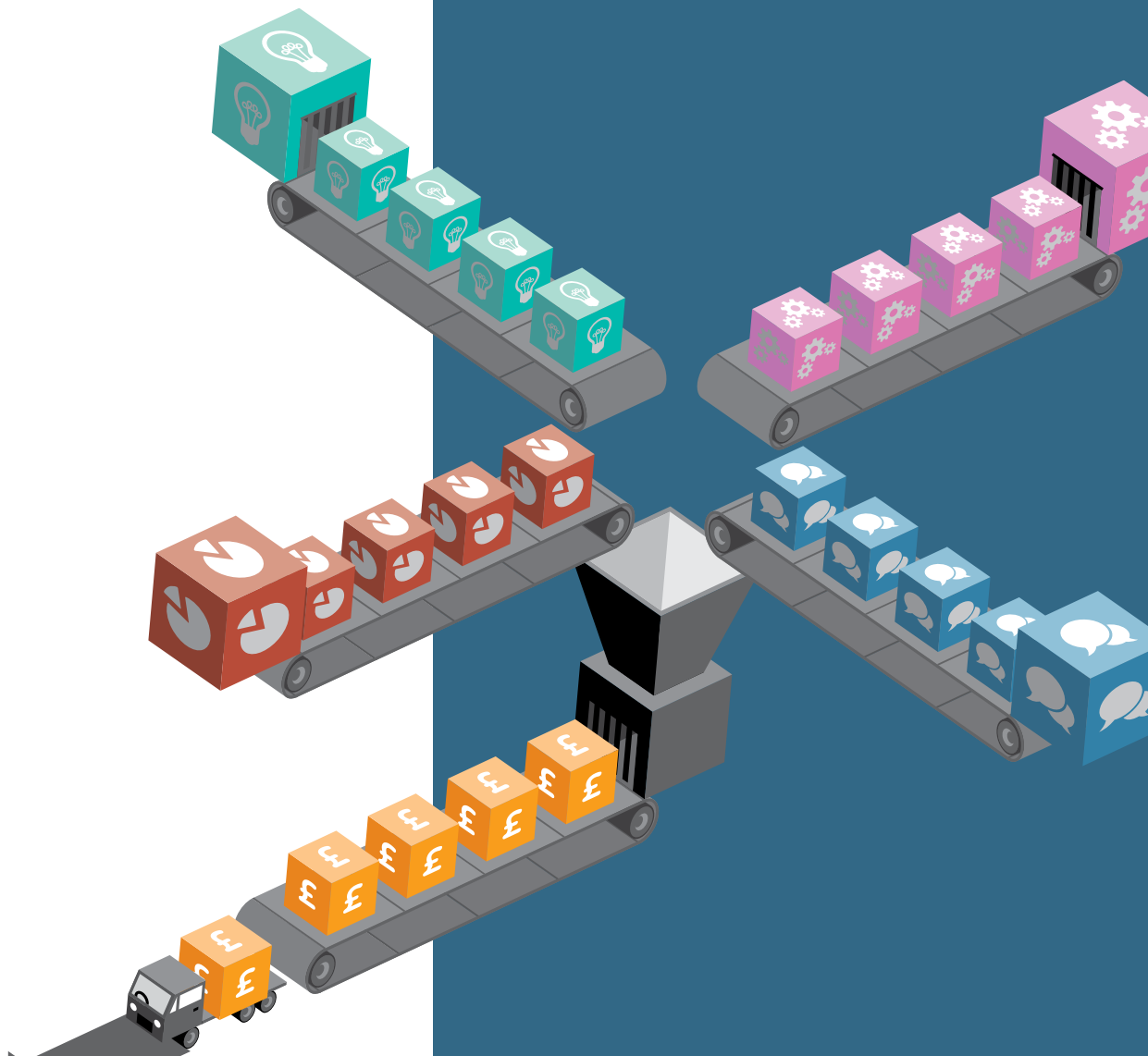
A-level (7132)

Paper 3 7132-3

Marked answers from students of different levels for specific questions. Supporting commentary is provided to help you understand how marks are awarded and how students can improve performance.

Version 1.0 April 2023

Answers and commentaries



A-level Business Studies

Answers and commentaries Paper 3 2022

Please note that these responses have been reproduced exactly as they were written and have not been subject to the usual standardisation process.

Paper 3 Insert

Rapid early success

Ten years ago, Bemí Agboola perfected her first commercial cybersecurity system. The innovative software used a totally new approach to protect against hackers' attempts to steal customer data from retailers' e-commerce websites. Though others have produced similar systems, Bemí's business (SSN Ltd) is now well established in the cybersecurity market. The company has branched out into other aspects of cybersecurity by designing and installing tailor-made security systems for large businesses. At the heart of the business remains Bemí's programming – protected, like any piece of software code, by copyright. 5

Bemí has shown a fearless approach to making major decisions quickly. She does not see the need for strategic planning, preferring to seize opportunities as they arise. As a result, SSN Ltd has kept up with the high rate of technological change that characterises the cybersecurity industry. Bemí's approach to decision-making has enabled SSN Ltd to experience a phenomenal growth in sales (Appendix A). One consequence of this growth has been the need to expand its workforce. Bemí has hired programmers, administration, marketing and sales teams, many straight from university. From simple beginnings, the business now rents an expensive head office in London and regional offices in New York and Beijing. With over 100 employees across its three offices, Bemí feels it is increasingly hard to monitor what is happening within the business. 10 15

Bemí remains determined to keep increasing the company's share of the highly competitive cybersecurity market and therefore spends heavily on promoting the business and its products. The objective is to raise SSN Ltd's profile among global business leaders who are her potential customers, as a complement to more direct methods of targeting them (see Appendix B). 20

Problems emerging

Despite its growth in revenue, the company has always had a very low operating profit margin. Cash flow has been a major problem in the last few months. In the past, SSN Ltd had found it easy to borrow money. Now its bank has stated that it is no longer willing to increase SSN Ltd's overdraft. Part of SSN Ltd's problem has been slow payment from its customers. Bemí is considering the use of debt factoring to improve its cash flow. The debt factor would charge a fee of 5% of any debt that is factored. 25 30

Everybody working for SSN Ltd knows that the business is very much controlled by Bemí. She owns 51% of the shares and makes all major decisions. Managers who want to succeed within the company tend to be those who can anticipate Bemí's wishes and implement her ideas. Within this power culture, Bemí uses a very 'hands-on' approach, taking a keen interest in the work of her programmers. Bemí tries to drop into each office frequently. This is a habit that some managers feel is based on an unwillingness to fully delegate decision-making to them. This has created an environment where some staff expect Bemí to check or even reverse decisions they make. 35

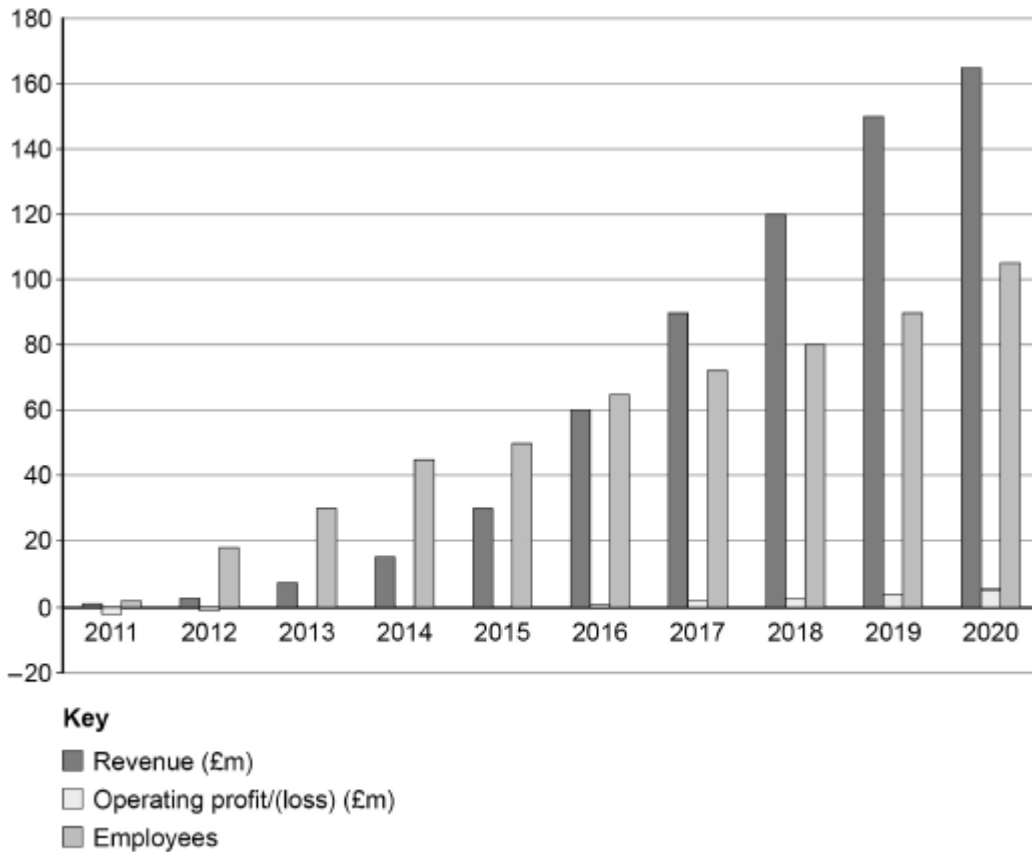
The future

The business media often features stories about SSN Ltd. Its expansion has been exceptional, even in a market which continues to grow rapidly. During the last year, Bemí has been increasingly criticised for the way she has been running the business. 40

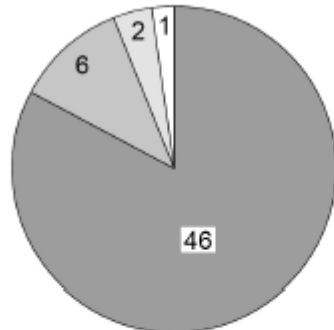
This has centred on what some consider to be excessive risk-taking. In recent days, several sources have suggested that a major competitor is preparing a takeover offer for SSN Ltd. These rumours have suggested that the competitor may be prepared to pay £50m for SSN Ltd, primarily to acquire the copyright to SSN Ltd's software. Analysts say that this competitor is likely to shut down SSN Ltd, terminating the contracts of all staff but preserving the brand name and the software. 45

Detailed examination of SSN Ltd's financial information (Appendix C) suggests that the business may be close to failure. 50

Appendix A SSN Ltd historic data



Appendix B SSN Ltd breakdown of 2020 promotional expenditure (£m)



Key

- Sponsorship of sporting and arts events
- Advertising in trade magazines and on websites
- Face to face personal selling
- Direct electronic communications

Appendix C

Table 1 SSN Ltd balance sheet (statement of financial position) as at 31/5/21

	£m
Non-current assets	25
Inventories	0.5
Receivables	16.5
Payables	(18)
Overdraft	(5)
Non-current liabilities	(18)
Net assets	1
Total equity	1

Table 2 SSN Ltd income statement for year ended 31/5/21

	£m
Sales turnover (revenue)	165
Cost of sales	(50)
Expenses	(110)
Operating profit	5
Net finance cost	(4)
Profit for the year	1
Dividends	(3)
Retained profit/(loss)	(2)

Question 1

Analyse the factors affecting SSN Ltd's promotional decisions.

[12 marks]

Mark scheme

Marks for this question: AO1 = 3, AO2 = 3, AO3 = 6

Level	The student will typically demonstrate:	Marks
3	<p>A good response overall that focuses on many of the demands of the question.</p> <p>Provides an answer to the question set that:</p> <ul style="list-style-type: none"> demonstrates a depth and range of knowledge and understanding of issues in the question demonstrates analysis which is well developed, applied effectively to the context and considers a range of issues in the question. 	9–12
2	<p>A reasonable response overall that focuses on some of the demands of the question.</p> <p>Provides an answer to the question set that:</p> <ul style="list-style-type: none"> demonstrates a limited knowledge and understanding of a range of issues in the question or a good knowledge and understanding of relatively few issues in the question demonstrates analysis which is developed, applied to the context and considers some of the issues in the question. 	5–8

1	<p>A limited response overall with little focus on the demands of the question.</p> <p>Provides an answer to the question set that:</p> <ul style="list-style-type: none"> • demonstrates a limited range and depth of knowledge and understanding of issues in the question • demonstrates analysis with little development and mainly descriptive application to the context. 	1–4
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The demands of this question are:

- analyse factors affecting promotional decisions
- link these to aspect(s) of SSN Ltd’s context.

Indicative content:

- B2B – focus on target market of decision-makers in large businesses – so promotional channels must be able to reach these. **Appendix B** shows methods that may achieve this.
- An image of trustworthiness and reliability will be key in this market which may rely on creating an image of being a large established business – which could explain sponsorship as a means of pushing the company’s wider reputation. This will also affect messaging behind promotional activities.
- Online only – not likely to mean only online channels should be used – note the relative importance of personal selling.
- Focus on large businesses as customers probably increases the amount that needs to be spent on promotion, in order to access channels that will reach decision-makers within these companies.
- Bemi majority owns and controls the business – therefore her say is likely to override the opinions of others in making promotional decisions.
- The product’s position on the Boston Matrix (probably a star, with high share of a high growth market) suggests heavy promotional spending will be needed to protect market share in a market that will be attractive to new entrants.
- Finance available – SSN Ltd is short of cash and heavily indebted – therefore budgetary constraints are likely to influence the promotional methods chosen.
- Promotional decisions may consider both methods of promotion used and the message behind the promotional activities.

Accept other relevant arguments

NOTE: One factor with well-developed analysis applied effectively to the context should score 9 marks

Student responses

Student response 1

One factor that would affect SSN's promotional decisions would be their target market. This is because depending on their target market it can help the business to decide how to promote and where to promote. In this case since SSN is selling to businesses it would be better for them to promote online instead of through TV ads or newspapers as the internet has become more accessible and can allow SSN to reach out to more people/businesses. Doing this can give SSN more awareness as well as a higher chance of businesses wanting to buy their software from SSN helping the business to grow quicker.

Another factor that would influence promotional decisions would be the cost of promotion. As seen in the extract SSN has been having pretty low operating profit margins as well as cash flow problems meaning that cost could be a deciding factor. Especially because they would need to try not to spend a lot on promotion in case it becomes a sunk cost which could be a loss for SSN. Therefore looking at the cost of promotion and/or the different ways of promotion with their budget could effect how they choose their type of promotion e.g. SSN could promote online which could benefit them as they could reach out to more people as well as keep their costs low without having to pay for printing/distribution etc.

This is a Level 3 response

The first argument doesn't quite manage to accurately explain why the target market would steer SSN Ltd to online promotion, though it comes quite close to doing so. This is a developed argument. The second point (low profit) is developed just well enough to be well developed, though there are some odd links, such as the 'sunk cost' reference. Overall, the answer contains two valid points, from the context, both of which are developed, one well enough to move the response into Level 3.

10 marks

Student response 2

One factor affecting SSN Ltd's promotional decisions is their finances. In order to promote their products better and to a wider target audience the company needs to have a good control over their finances. SSN Ltd has faced major cash flow problems recently which would affect how quickly and effectively they can implement their decisions. With poor cash flow into the business this would result in less being able to [??] the business. Therefore this would affect how Bemmi is able to implement the decisions he makes as she may not be able to afford all of the decisions she makes. This is even more important for the company as their bank is no longer willing to increase their overdraft making it harder for them to borrow money. However not all decisions would rely on finances. Some internal decisions may be made without huge sources of finance being needed. For example decisions relating to the organisation of the business would require less to little finances.

Another factor affecting the business' promotional decisions is the leader. SSN Ltd mainly relies on the leader Bemmi. She owns the most shares and also 'makes all major decisions'. It is also stated that she 'has shown a fearless approach to making decisions quickly'. This affects the rest of the business decisions as they would heavily rely on what she feels is best. This would therefore affect SSN Ltd's promotional decisions as the business would heavily rely on Bemmi's thoughts and feelings. This would therefore affect how they are to promote their products and whether their decisions are good enough for their business or not.

Overall, SSN' Ltd's promotional decisions would be affected by their leader as they would rely heavily on how she wants the business run. It depends on the organisational structure and how many people help in the decision making and most importantly is the business able to implement all of the decisions they make?

This is a Level 2 response

The first section of the response identifies a valid point from the context – cash flow issues, and begins to develop an explanation of why these may affect decisions. However, this argument is not well developed as it does not explicitly address any promotional decisions. A counter point is not required on a 12 mark analysis question like this and adds nothing.

The second section of the answer identifies another point from the context but again fails to explain how this would affect any specific promotional decisions. Once again, we see an argument with some development, but not well developed.

A conclusion is not needed for 12 mark questions. This is a summary and adds nothing, though it does add a new point (structure) which is not contextualised.

Overall, a couple of arguments based on issues raised by the context, but not well developed.

7 marks

Student response 3

Promotional decisions are a range options to do with promotion which businesses can use in order to raise awareness and differentiate their products.

As SSN have experienced a 'low operating profit margin' the business is limited in terms creating physical promotion like banners. This means the business must invest in sales promotion sellings and face to face interaction sellings like personal sellings. This is because it requires very little amounts of business capital as well as encouraging customers to buy the products due to discounts being made. Therefore, the business is able to gain a sense of brand loyalty quicker and soon earn high sales revenues, which is particularly important as SSN must maintains its 'established' reputable status in the 'cybersecurity market' as stated in the appendix. Therefore, SSN is able to attract more customers which enable them to target a different segment of the market. Ultimately increasing their profit margin levels.

Another factor affecting promotional decisions is that has been experiencing 'slow payments from their customers'. This means the business must indulge in online sales promotion as they do not squire the sufficient amount of employees who are able to meet with consumers directly. Therefore, the business must use online advertising like websites in order to differentiate their products and promote their products. As the business has to promote online, SSN needs to constantly regulate and check that their website is up to date in order to prevent the loss of consumers. It is more cost effective for the business as they do not need to hire employees, generating a positive cash flow which can be used to buy resources from suppliers. Ultimately, enabling CCN to have the sufficient amount of capital to refresh their website if they choose to reposition.

This is a Level 1 response

The answer starts by demonstrating knowledge. An introduction or definition is not required but assures the examiner that some relevant knowledge is present. A point is made, with some contextual relevance – shortage of profit, but attempts to develop this point contain faulty logic, or unrealistic hypothetical assertions. There is not quite enough logical development in this first argument to be considered developed, instead this is considered to be limited development.

The second argument, though based on what could have been a valid point, continues to show confused attempts at development and thus remains at Level 1.

The response never quite manages to develop an argument effectively, though it gets close.

4 marks

Question 3

Using information from **Appendix C** and the case study, recommend whether the use of debt factoring is a good way for SSN Ltd to improve its cash flow.

[16 marks]

Mark scheme

Marks for this question: AO1 = 2, AO2 = 3, AO3 = 4, AO4 = 7

Level	The student will typically demonstrate:	Marks
4	<p>An excellent response overall that is fully focused on the key demands of the question.</p> <p>Provides an answer to the question set that:</p> <ul style="list-style-type: none"> demonstrates a depth and range of knowledge and understanding that is precise and well selected in relation to issues in the question demonstrates analysis throughout which is well developed, is applied effectively to the context and considers a balanced range of the issues in the question makes judgements or provides solutions which are built effectively on analysis, show balance and have a clear focus on the question as a whole throughout. 	13–16
3	<p>A good response overall that focuses on many of the demands of the question.</p> <p>Provides an answer to the question set that:</p> <ul style="list-style-type: none"> demonstrates a depth and range of knowledge and understanding of issues in the question demonstrates analysis which is well developed, applied effectively to the context and considers a range of issues in the question makes judgements or provides solutions which are built on analysis, show balance and address the question as a whole. 	9–12
2	<p>A reasonable response overall that focuses on some of the demands of the question.</p> <p>Provides an answer to the question set that:</p> <ul style="list-style-type: none"> demonstrates a limited knowledge and understanding of a range of issues in the question or a good knowledge and understanding of relatively few issues in the question demonstrates analysis which is developed, applied to the context and considers some of the issues in the question makes judgements or provides solutions which are built on analysis, but lack balance and are not fully focused on the question as a whole. 	5–8

1	<p>A limited response overall with little focus on the demands of the question.</p> <p>Provides an answer to the question set that:</p> <ul style="list-style-type: none"> demonstrates a limited range and depth of knowledge and understanding of issues in the question demonstrates analysis with little development, mainly descriptive application to the context and considers a limited number of issues in the question makes judgements or proposes solutions which have limited links to analysis or limited focus on the question as a whole. 	1–4
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The demands of this question are:

- analyse the impact of using debt factoring to improve cash flow
- use data from **Appendix C** and the case study
- make a judgement on whether debt factoring is a good way for SSN Ltd to improve its cash flow.

Indicative content:

- Debt factoring provides an immediate injection of cash flow in situations where services have been sold on credit.
- SSN Ltd currently have £16.5m of receivables. Factoring this would result in an immediate cash injection of around (80% of £16.5m) £13.2 million. This would enable the overdraft to be cleared or a large proportion of the £18m payables to be covered.
- Converts money owed into cash very quickly – SSN’s cash flow problems are immediate.
- SSN Ltd will have cash and so will be able to meet current liabilities as they fall due.
- The factoring company takes responsibility for collecting the money – something that SSN Ltd have not achieved successfully recently. This could also help to preserve a positive relationship between the business and its debtors.
- Risk has been passed to the factoring company, to some extent – SSN Ltd would be helped by any reduction in financial risk in its current circumstances.

Accept all relevant arguments.

Evaluation

An effective judgement should flow from the arguments presented. Judgement is likely to come through the assessment of the suitability of debt factoring to SSN Ltd’s circumstances. SSN Ltd’s operating profit for last year would have been eliminated if revenues were reduced by 5% – suggesting that factoring does not represent a viable long-term solution, however, responses that suggest factoring is a sensible short-term solution should be credited. Other sensible proposals should also be credited but are not required.

NOTE – responses that do NOT meet the first demand of the question cannot progress past Level 2 of the marking grid.

Student responses

Student response 4

I suggest that debt factoring may be a good way for SSN to improve its cashflow. A business needs healthy cash flow for the business to continue running on a day-to-day basis. Even successful businesses can become bankrupt due to cash flow problems. As SSN's cash flow is a 'major problem' and needs improving, a way to do this is obtaining sources of finance. Since the bank no longer want to provide an overdraft, SSN has to consider debt factoring. It is in place to deal with outstanding payment from customers which seems to be exactly what SSN is dealing with. It is essentially selling your outstanding invoices to a third party organisation and getting 90% of the payment back immediately. This would make a major improvement in cash flow. Especially considering that in the recent account, SSN has £16.5m of receivables; which is what they are expecting from customers. Using debt factoring, liquidity can be improved, enabling better functioning of SSN. It can use this money to start paying off its non current liabilities. Improved cash flow using debt factoring is easily achievable and most importantly very quick for struggling businesses like SSN. However, it does need to be considered that debt factoring also comes with a cost, the third party is going to keep 5% of the debt of customers. This may improve cash flow but can be damaging for the long-term operating margin of SSN which also seems to be problematic. SSN need to consider whether improved cash flow is more beneficial than greater profit margins.

Since, debt factoring involves giving away a sum of the revenue, a better option may be to negotiate credit terms with suppliers and customers. SSN has achieved phenomenal growth and is no longer considered as a fairly new or start up business, it would make sense to reduce receivable days. Customers should be given less time to pay the full amount which would improve cash flow. This is because the money spent on resources e.g. outflows such as expenses (£10m) will be balanced out by the surge of money. At the same time, credit terms should be negotiated in a way so that the business has a longer period to pay for the suppliers. This way SSN can ensure that their cash inflows and outflows are spread out over a longer period of time, improving cash flow and reducing the risk of running into problems.

However, considering that operating profit margin for SSN is just 3.03%, it may not make sense to essentially demand full payment or within a short amount of time from customers. This could have an inverse effect as customers may be pushed away from the business and decrease sales. Considering that sale revenue has been a major source of cash inflows (£165m), this decision may not be practical. Debt factoring may be more suitable as it does not affect the customer.

In conclusion, I would recommend SSN to not use debt factoring. The business may face a loss in inflows in the long term as they are missing out on the 5%. Most importantly customers feel like the business has lost touch from them and it may lose personnel. Therefore, long-term options would be suitable as overdraft and debt-factoring are short termist.

This is a Level 4 response

This response shows a clear understanding of debt factoring, an aspect that many responses lacked. From showing understanding of the company's liquidity position, the response goes on to develop the argument as to how debt factoring would help to solve that problem. Using correctly selected data from the case study (Appendix C, Table 1) shows good use of context, while going on to explain the benefits of fixing cash flow using factoring. Balance is shown later in this section of the response acknowledging the 5% factoring fee contrasted with SSN Ltd's tight profit margin, before making a valid evaluative statement contrasting improved cash flow with damaged margins.

Simply considering pros and cons of factoring was sufficient range to fully answer this question. 16 mark questions are characterised by being designed to be answerable in around 16 minutes and are therefore generally quite limited in the range of knowledge required. This response has successfully produced a well-developed, well-contextualised counter argument which is credited.

The concluding paragraph (a helpful structural feature) makes a clear judgement, which is effectively justified by reference to prior argument. The response as a whole shows balance and is underpinned by an excellent understanding of cash flow issues and factoring's value in helping to solve these, in this context.

15 marks

Student response 5

From Appendix C we can see just by calculating the financial efficiency ratios that the business is falling behind. The money owed by customers, receivables is 36.5% 37 days. And the number of days the business has to pay the suppliers is 131.4, 132 days. From this we can identify the business needs to reduce the receivable days. 37 days is a lot of days for business to receive their money, so instead the business could put into place credit control decreasing the amount of days is owed by consumers so they can pay back quicker and money can enter the business. The payable day is high which is good for business like SSN let with liquidity issues as they have longer to pay back their suppliers. Debt factoring is one of a way to improve cash flow and is all based on credit with the bank. So the bank would give the business a percentage of the credit owed like 80% or even less, so essentially the customers are paying the bank. However, debt factor fee is 5% of any debt factored. Meaning that for every product consumers owe, the bank would take 5% which is a lot of money. And the business wouldn't be making as much profit in fact no profit. Another problem is SSN Ltd already increased to limit on overdraft and that the bank doesn't want to increase it no longer. Another way improve cash flow would be through share capital or even venture capital. Especially venture capitalised take a risk in a business helping it to flourish and be successful.

To conclude, currently Bemis doesn't really have a lot of options right now as firstly the bank has refused to increase the businesses overdraft limit, meaning the bank may or may not offer bank loans. However, with bank loans if the does offer it, there will be very high interest rates and in the longer may even turn out to be higher than the 5% debt factor. So debt factoring therefore would be a good way to improve cashflow as the business don't have any retained profit whereby they can help themselves. Debt factoring can also shorter term receivable days so money would be able to come into the business increasing the inflow and due to the 132 payables days there would less outflow and the business will slowly be able to recover from this liquidity issue. They could also then learn from this experience by using a cash flow forecast which shows the inflows and outflows of the business and also is able to predict future outcomes. SSN Ltd can then learn to put in sufficient funding in place to be able to pay off debt, wages and even outlet because as we know is a growing business that needs to expand its workforce. Also the business rents an expensive head office in London. Big reputable brands shouldn't be falling into liquidity issues as it could tarnish brand image as they may begin to use cheaper raw material, lowering quality and demand and brand image issues, no there would be an increase in refunds.

This is a Level 3 response

The answer begins by showing a sound understanding of cash flow problems and uses some valid data and ratio calculation to set the scene (though not to directly answer the question). The response goes on to explore tighter credit control as an alternative solution, producing a developed argument.

Then the student shows a sound understanding of factoring, with some explanation of how it would help, though the explanation could be clearer. The argument is developed, though not well.

However, the response, then moves onto yet more possible solutions, exploring several valid alternative solutions without much depth. An argument emerges, basically suggesting that as no other alternatives exist, factoring must be a good solution. This forms the basis of the student's justification and has some validity. After the mention of retained profit, the answer begins to drift. An inaccurate statement (factoring does NOT increase inflows, it reduces them but changes their timing). Once the response starts discussing cash flow forecasting, it has lost focus on the question asked and nothing further is added.

Overall, there are developed arguments on either side of the question, a judgement with some balance, which is enough to move the response into the lower part of Level 3.

10 marks

Student response 6

Debt factoring to an extent would be a good way for SSN Ltd to improve its cash flow. The payable outweigh the receivables and so the business would need to find a good way to improve their finances. Appendix A suggests that; 'The debt factor would charge a fee of 5% of any debt that is factored' meaning that they are able to create some cash flow they can use to improve their finances. As the business charges a fee for any debt they factor they would be able to use this fee to increase cash flow. As it is a short term method it would allow SSN Ltd to improve for a short while which may give them some time to improve elsewhere. However as it is a short term method of finance the business would not always be to do this. It may also increase their financial troubles even further as they would be using all of the cash they earned in a short while therefore falling into more trouble quicker.

There are alternative methods of finance that may be of better use for SSN Ltd. For example they could maybe do more sponsorships or even decrease their production to match their demand. By doing so they are then able to cut down on costs and therefore increase their profits. This way they can use the money they save elsewhere. They could also be able to improve cash flow as by producing less, less money is leaving the business and enough is coming in. Therefore they are able to improve its cash flow. Also by doing more sponsorships they are able to earn a certain percentage of the sales from the sponsorship. However, this may be similar to their method of debt factoring as they are aiming to charge for every debt factored. Therefore it may be better for them to match production to demand.

Overall, debt factoring is a good way for SSN Ltd to improve cash flow. As they are charging a fee of 5% they are able to earn a small percentage to balance out cash going in and out of the business. *

*The businesses profit for the year is £1m and so they would need a lot of finance in order to cover their costs and finances.

*It depends on the willingness of other businesses to help and most importantly whether or not it will entirely raise enough finance to help with cash flow or not.

This is a Level 1 response

The first paragraph shows a lack of understanding of debt factoring. It illustrates a worryingly common misunderstanding, that interest is charged on overdue payments. This first argument lacks understanding, clarity and therefore depth. The second argument is an attempt to counter the first. It does so by suggesting an alternative approach to solving cash flow problems, which would have been relevant. However, there is confused reference to sponsorship, but a valid, non-contextualised point made with limited development about reducing outgoings.

The conclusion is based on incorrect understanding of factoring and therefore lacks validity. Overall, this is a limited response, which shows some understanding of cash flow problems and has an argument with limited development.

3 marks

Question 6

‘Without strategic planning all businesses are doomed to fail.’

To what extent do you agree with this statement?

[24 marks]

Mark scheme

Marks for this question: AO1 = 5, AO2 = 4, AO3 = 6, AO4 = 9

Level	The candidate will typically demonstrate:	Marks
5	<p>An excellent response overall that is fully focused on the key demands of the question.</p> <p>Provides an answer to the question set that:</p> <ul style="list-style-type: none"> demonstrates a depth and range of knowledge and understanding that is precise and well selected in relation to issues in the question demonstrates analysis throughout which is well developed, is applied effectively to the context and considers a balanced range of the issues in the question makes judgements or provides solutions which are built effectively on analysis, show balance and have a clear focus on the question as whole throughout. 	21–24
4	<p>A good response overall that focuses on many of the demands of the question.</p> <p>Provides an answer to the question set that:</p> <ul style="list-style-type: none"> demonstrates a depth and range of knowledge and understanding of issues in the question demonstrates analysis which is well developed, applied effectively to the context and considers a range of issues in the question makes judgements or provides solutions which are built on analysis, show balance and address the question as a whole. 	16–20
3	<p>A reasonable response overall that focuses on some of the demands of the question.</p> <p>Provides an answer to the question set that:</p> <ul style="list-style-type: none"> demonstrates a limited knowledge and understanding of a range of issues in the question or a good knowledge and understanding of relatively few issues in the question demonstrates analysis which is developed, applied to the context and considers some of the issues in the question makes judgements or provides solutions which are built on analysis, but lack balance and are not fully focused on the question as a whole. 	11–15

2	<p>A limited response overall with little focus on the demands of the question.</p> <p>Provides an answer to the question set that:</p> <ul style="list-style-type: none"> • demonstrates a limited range and depth of knowledge and understanding of issues in the question • demonstrates analysis with little development, mainly descriptive application to the context and considers a limited number of issues in the question • makes judgements or proposes solutions which have limited links to analysis or limited focus on the question as a whole. 	6–10
1	<p>A weak response overall lacking focus on the demands of the question.</p> <p>Provides an answer to the question set that:</p> <ul style="list-style-type: none"> • demonstrates isolated or imprecise knowledge and understanding • demonstrates undeveloped analysis with descriptive application to the context and lacking focus on the question • makes judgements or proposes solutions based on assertions. 	1–5

The demands of the question are:

- analyse the role of strategic (future) planning in preventing business failure
- analyse how businesses can survive, or even thrive, without strategic planning (ie reacting to issues as they arise)
- make a judgement on the extent to which a lack of strategic planning will lead to business failure for all businesses.

Indicative content may include:

Contingency planning should be accepted as a form of strategic planning.

A lack of strategic planning will lead to failure because:

- market trends may be missed or not reacted to – for example technological change which radically alters a market can be spotted and plans implemented to adjust to the changes – Nokia failed while Apple succeeded
- the business may lack a logical and overarching plan to co-ordinate business resources and ensure that the resources required can be acquired strategic drift is more likely to occur.

A lack of strategic planning will not necessarily lead to failure because:

- Intuitive decision-making may allow great innovations to take place, where a more considered strategic approach to planning may shy away from risk.
- Emergent strategy can be effective but, by definition, does not involve the realization of traditional long-term strategic planning. Businesses can thrive through effective use of emergent strategy.
- Business failure is ultimately the result of a shortage of cash. Managing cash effectively may not require strategic planning, merely careful cash management.
- Strategic planning has limitations. There are plenty of reasons for failure that may not be prevented by strategic planning:
 - A plan must be implemented effectively in order to provide benefit to the business. Failure in implementation is a very common cause of business failure.
 - Without effective leadership to drive strategic action, a business may choose the wrong

strategy or fail to implement the plan effectively.

- Organisational structure may hamper efforts to follow the right strategic plan – a business expanding internationally into markets where the need to respond to local conditions is high will need to ensure a decentralised structure – centralised decision-making will not enable local conditions to be satisfied.
- Poor communication within an organisation may also mean strategic plans are not implemented effectively.
- Economic change may be very hard to predict – neither the financial crash of 2008 nor the global pandemic of 2020 were widely foreseen. Such unpredictable events may drive businesses into failure, although to some extent contingency planning may help to mitigate this risk.
- Technological change can be the result of an innovative breakthrough by one business which effectively protects its intellectual property – meaning rivals simply cannot develop a product or service to compete given the HR and/or financial constraints they may face.
- The arrival of a new competitor may ‘come out of the blue’ – ie be unpredictable, thus impossible to plan for. Where the competitor is especially powerful this may spell doom for existing companies who would have been unable to plan for such an eventuality.

At SSN Ltd:

(there is no expectation to refer to SSN Ltd, but it can be used as valid context)

(a response that SOLELY considers SSN Ltd as a context would not fully address the third demand of the question re. ‘all businesses’)

- Bemis’s lack of willingness to adopt a strategic planning approach is likely to lay behind many of the business’ issues, including a failure to build an organisation that effectively manages its finances.
- Growth for the sake of growth is rarely an effective strategy, especially if a strategic plan is not developed to head off the problems of growth.

Evaluation

An effective judgement should flow from the arguments presented. Judgement is likely to come through the assessment of situations in which the statement could be true, weighed up against situations in which a business may survive or thrive without strategic planning. A consideration of timescale would be a valid route to judgement – since strategic planning deals with long-term issues, it is failure on the long-term which is more likely, although short-term performance, whilst the external environment remains relatively stable, may be fine.

The extent to which a lack of strategic planning may or may not lead to failure depends on:

- the rate of change in the market or industry in which a business operates
- the quality of management decision-making, which may be affected by experience of market insight
- the extent to which the strategic plan is effectively implemented
- the quality of the strategic planning – were the right choices made?

Overall:

A lack of strategic planning is almost certain to increase the chances of business failure. However, it does not guarantee that all businesses are doomed. There are circumstances in which businesses can thrive or at least survive without strategic planning, whilst there are causes of business failure which strategic planning may be unable to prevent.

Student response 7

I agree with this statement to an extent strategic planning involves the long term planning of many aspects of a business. A main reason for strategic planning is changing market conditions. A business can't anticipate how the market is going to change, especially with the increasing technological change. If a business does not use strategic planning, it will be unable to cope with the external environment leading to a strategic drift. This is where the business is no longer relevant to the market conditions. Incremental changes may not be enough to cope and if effective management can't make decisions during the flux stage, the death of the business will occur. It will no longer have a segment of a market to target as it may have changed and essentially, there will be very few individuals to cater products to this. The inability to plan and anticipate ahead leads a business into a downward spiral making them 'doomed to fail'.

However in relation to this point, if a business can't anticipate market conditions, how is it supposed to put effective measures in place to deal with it? Following a straight direction may not be suitable for changing market conditions after all. Setting out objectives and aims are subject to change and should not act as a fixed guide.

Leading on from that. It is not certain that in the absence of strategic decision making, a business will fail. By responding to opportunities and threats in the external environment, a businesses emergent strategy may actually be very useful. This includes the decisions that are taken in response to change. Businesses that do not shy away from change and seize opportunities as they go, may be more advantageous. They display problem solving skills and maintain their relevance through all situations such as a recession. Therefore strategic decision making may make a businesses inflexible and following a set out direction can't ensure that the business will deal with problems better. However, strategic planning gives a sense of direction to the business, it ensures that it remains on track of meeting its corporate objectives when responding to change. Corporate objectives define the purpose of the business which can easily be steered off of forgotten without strategic implementation.

In conclusion, I don't not believe that this statement is true for all businesses and therefore I do not agree with it. This is because strategic planning aids a business to a direction but it does not give it the ability to make informed decisions in regards to changing environments. In some situations 'Hunch decision making' and 'steering off the objectives' actually allow a business to make some of the best decisions, which save them from being 'doomed'. More over strategic decision making may actually advocate 'resistance to change' as managers may not see a need for change and a need for making decisions not relevant to the established 'strategic plan'. This sometimes causes them from being doomed rather than saving them. Therefore it is not true that not using strategic planning leads to a business being doomed.

This is a Level 4 response

The first argument here is effectively developed, suggesting that strategic planning may help cope with changing external conditions (assuming plans are changed in line with external change). Failing to regularly update strategic plans may result in strategic drift. The context here is the nature of the external environment, and the response uses business theory effectively to build an argument.

This argument is countered – showing an awareness of its weakness, providing the answer with some balance, while arguments remain developed.

The answer then moves on to explore why a lack of strategic planning may not be fatal, building a well developed argument around emergent (unplanned) strategy – another example of how well the student has used their business theory to address the question. In adding some balance to the end of this argument, about a sense of direction, the argument is considered sufficiently well developed to move up a level.

The conclusion does a good job of drawing together the threads of arguments offered earlier. It shows balance and clear justification.

Preventing the award of Level 5 were only one side of the argument being considered well-developed, plus a relative weakness in the use of context – the reader needed to work hard at times to draw out the contextual themes. In other words, a Level 5 answer did not need more arguments or more conclusions, simply clearer use of context in developing the arguments and some greater clarity to the logical chain developed in the first part of the answer.

18 marks

Student response 8

Strategic planning is a long term plan a business has in place for the future vision of the business and has a plan for how they will achieve this.

It could be argued that strategic planning may be beneficial for all businesses and without a plan, a business is doomed to fail for instance, a strategic plan which consists of an plan to grow could mean having more employees. when a business grows, according to Greiner's growth model, it is inevitable a business experiences crisis. For instance, growth could lead to a leadership crisis which a manager experiences as they grow. By having a strategic plan, the leader and the business would be aware that they must be ready to get more employees therefore the business would have planned for extra office space or would ensure they have funds for recruitment costs. Furthermore with the growth of a business these employees would also be doing their job. By having a strategic plan, the employees would be able to understand the vision of the business for instance, effective communication of the strategic plan would be able to ensure that employees are motivated since confusion is a significant de-motivator. For example each functional area would know what to do and communication would be better since they are working towards a specific goal or plan, and are aware of the step-by-step process. However, this is dependent upon the emphasis on the strategic plan.

Since some middle managers may be aware of the strategic plan, this may not be translate in their actions or emphasis on it. This could lead to confused, demotivated employees. Demotivated employees means that productivity is low therefore costs increase and this could cause a business to fail if costs exceed revenue and there is inadequate planning of this too. Therefore, strategic planning may only work for some businesses, for others, it may not work and could be seen as a 'waste of time' and could be doing other things which contribute to the business not failing.

It could also be argued that strategic planning may not cause all businesses to fail. For example, this is clear for SSN Ltd who do not have a strategic plan. Instead, SSN has the leader making decisions quickly. For example they are 'preffering to seize the opportunities as they arise'. It is clear that with Bemis excessive risk taking has been able to seen a growth in revenue for the business, an indicator of business performance. Furthermore, Bemis is able to adjust quickly to changes in the external environment which means that SSN Ltd has kept up with the high rate of technological change. However, it could also be suggested that they may be close to failure since their cash flow problem suggests that they will be unable to survive. This could suggest that if the business had strategic planning in place, they could have been able to avoid this.

In conclusion, it could be said that strategic planning does cause businesses to fail since SSN, who did not have a strategic plan are on the verge of failing.

This is a Level 3 response

The first argument being developed here relates to the need for strategic planning in handling human resources. This argument was considered to be contextualised – the context being ‘growth’, but the second half of the argument drifts from this growth context and is credited as theoretical analysis rather than further development of the argument. An argument is analysis in context.

The counter argument offered, uses the case study as context – which is fine. There is a developed argument, however, the quality of the development is hampered as the response makes more descriptive use of the context (what happened) rather than analytical use (why that happened in this context).

The conclusion is brief. There had been hints of evaluation throughout the response, and there is a little justification – though the judgement lacks balance.

Overall, this response is a reasonable (Level 3) response to the question asked. It scores 12 marks due to relative brevity of the judgement and some issues with effective use of context.

12 marks

Student response 9

Now strategic planning is planning that is long-term and has been put together by a strategist. Now strategic planning it could as it gives direction + coordination to the business allowing them to run the business smoothly. And making sure corporate objective and mission statements are being met. However, anything can happen that will change the plan of the business. That way emergent planning is done to avoid strategic drift. Lets take SSN ltd Beni grew her business into a well established company without strategic planning and instead seizing opportunities as they arise. This has helped grow. However, that being said from her rapid growth she did face cash flow issues. So strategic planning can help a business maintain a good cash flow in order not to fail. As cash flow forecasts can help predict future outcomes which can work in favour for the business as they are able to put in sufficient funding in place to step these liquidity issues from arising.

However, strategic planning does plan for a strategic drift. Instead emergent planning. A strategic drift occurs when the business no longer is suitable for the environment due to political economical, social, technological, legislation and environmental factors. The first step is incremental change and this is when the business is not too far from the environmental. Then strategic drift happens when the gap between the environmental factor and business step change increase which results in flux where the business recognises the issue however they don't know how to fix it. Leading them losing their competitive advantage and falling behind on trends and lastly is the transformation or demise where the business can either succeed or fail. So emergent planning is done to avoid this. And strategic planning may also include ways to avoid the strategic drift stopping businesses to fail. So to conclude strategic planning is needed so not all businesses are doomed to fail and instead there are set plans put in place like expenditure budget which is the maximum amount of money a business can spend and this could stop the business from falling in adverse variances where the costs are higher than initial budgets and instead the business can benefit from favourable variances.

Strategic planning can increase profit so therefore this allows the business to have opportunity costs retained profit. And the business can then decide how they want to spend their money. They could use it to innovate their product, entering a new market, leading to new target customers and even entering international markets increasing revenue.

This is a Level 2 response

This response contains a lot of business theory. It is rarely used effectively to build arguments, instead, being dropped into the response and explained. There is a developed argument in the context of SSN about why a lack of strategic planning can be a problem due to a failure to plan ahead for financing requirements. However, this is the high point of the answer. Much of the rest of the answer is, as mentioned above, dropping in business theory. Once the conclusion begins, the response struggles to effectively justify the judgement and is once more distracted by a desire to bring in budget variances and opportunity cost which distract from answering the question.

Overall, this is a limited response to the question set. One argument is developed, but there is nothing of a higher quality than that.

8 marks

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