



BUSINESS AND MANAGEMENT

9771/02

Paper 2 Strategic Decisions

May/June 2016

MARK SCHEME

Maximum Mark: 100

Published

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Section 1

1 (a) Refer to the Critical Path Analysis Network in Figure 1.

(i) Identify the activities on the critical path. [1]

A, B, F, H, K, L (1 mark)

(ii) What is the minimum amount of time the refurbishment of a Costa outlet will take to complete? [1]

12 days (1 mark)

(iii) Calculate the free float of activity G (replace windows). [2]

Free float formula:

EST start of next activity – EST start of this activity – duration (1 mark)

$8 - 4 - 1 = 3$ days (2 marks for the correct answer)

(iv) Calculate the total float of activity D (internal painting). [2]

Total float formula: LFT of activity – EST of activity – duration (1 mark)

$8 - 5 - 2 = 1$ day (2 marks for the correct answer)

(b) Comment on the usefulness of critical path analysis for Costa. [6]

	Knowledge 2 marks	Application 4 marks
Level 2	2 marks Candidate shows clear and precise knowledge of CPA. 2 distinct and correct points made.	3–4 marks Candidate clearly explains the usefulness of CPA to Whitbread using 2 clear case context points or 1 point very well applied
Level 1	1 mark Candidate shows some knowledge of CPA. 1 point made.	1–2 marks Candidate uses limited case context.
Level 0	No rewardable response.	

Answers could include:

- Definition of CPA
- CPA aids efficiency for Costa; the longer a Costa cafe is shut the greater the lost revenue
- A quicker refurbishment may mean lower costs
- Is the CPA realistic?
- Contingency plan issues
- CPA could allow Whitbread to plan by seeing what activities can be done simultaneously and what activities are non critical and thus may allow resource transfer. Use of Fig. 1 to exemplify
- This particular CPA model has very little float and most activities are critical

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- Quicker may not be best. Is there a quality trade off? Is the internal painting rushed and sub-standard? This could impact on the quality of the Costa customers experience
- 18 days to 12 days is a 33% reduction in time; if Costa is shut, customers may try rivals such as Cafe Nero
- Any reasonable answer

(c) Analyse the profitability of Whitbread using the case data and appropriate ratios. [13]

	Knowledge 2 marks	Application 5 marks	Analysis 6 marks
Level 3		5 marks Candidate fully engages with the case context (use of 3 profitability ratios or 2 profitability ratios over 2 years).	5–6 marks Candidate fully develops analytical points.
Level 2	2 marks Candidate shows clear and precise knowledge.	3–4 marks Candidate links case material to the answer and use of 2 profitability ratios.	3–4 marks Developed analysis of arguments and ratios.
Level 1	1 mark Candidate offers some understanding.	1–2 marks Candidate makes a limited attempt to apply knowledge to the case study or use of 1 profitability ratio.	1–2 marks Weak analysis of ideas, failure to develop points.
Level 0	No rewardable response.		

Answers could include:

- Definition of profitability
- Profitability by business area may be more useful
- Profitability data needs benchmarking against similar businesses
- Given the economic climate, the fact that 2 of the 3 ratios have improved year-on-year is impressive
- Disparity between gross and net/operating profits shows a high figure for overheads £1,143.9m in 2012
- Gross profit margin does not give a very useful benchmark as it excludes many of the costs a business faces
- More years of data would be useful
- Any reasonable answer

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Profitability Ratio	2012	2011
ROCE	13.34%	12.64%
Gross profit margin	83.78%	85.18%
Net/operating profit margin	19.44%	19.37%

ROCE: Operating profit/capital employed \times 100

Capital employed = non-current & current assets – current liabilities

2012: $345.7/2591.2 = 13.34\%$

2011: $309.9/2452.2 = 12.64\%$

Gross profit margin: gross profit/sales revenue \times 100

2012: $1489.6/1778 \times 100 = 83.78\%$

Gross profit is found by revenue £1778.00m – cost of sales 288.4 = 1489.6

2011: $1362.5/1599.60 \times 100 = 85.18\%$

Net profit margin: operating profit/sales revenue

2012: $345.7/1778.00 \times 100 = 19.44\%$

2011: $309.9/1599.60 \times 100 = 19.37\%$

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Section 2

2 Discuss whether potential investors should buy shares in Whitbread.

[25]

	Knowledge 4 marks	Application 5 marks	Analysis 8 marks	Evaluation 8 marks
Level 3		5 marks Arguments are consistently based on case context.	6–8 marks Candidate fully develops analytical points.	6–8 marks Extensive, high-quality judgement shown.
Level 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 and balanced analysis of arguments.	3–5 marks Good judgement shown.
Level 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.
Level 0	No rewardable response.			

Answers could include:

- Depends on the type of investor: growth, income, balanced
- Depends on the time frame of the investor
- 3.0% yield (real yield is lower), yield is growing
- Operating profit is rising
- Costa seems to be doing particularly well
- Potential for international expansion
- Motivated employees
- Relatively low P/E of 13.2
- Diversified business

But:

- Considerable pension deficit £598.7m and grew from 2011
- Market saturation in the UK
- Restaurant revenue only grew 0.8%
- Is there further upside in the share price? Valuation
- Pressure on consumer incomes
- Uncertain economic environment (e.g. Brexit)
- Any reasonable answer

3 Evaluate the extent to which Whitbread meets its responsibilities to its employees. [25]

	Knowledge 4 marks	Application 5 marks	Analysis 8 marks	Evaluation 8 marks
Level 3		5 marks Arguments are consistently based on case context.	6–8 marks Candidate fully develops analytical points.	6–8 marks Extensive, high-quality judgement shown.
Level 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.
Level 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.
Level 0	No rewardable response.			

Answers could include:

- Employees as a stakeholder
- The business is currently doing very well and this is a key concern for employees
- Whitbread employees have access to a share purchase scheme; the share price has performed well in recent years and this is good for employees (see Appendix 1) (Taylor)
- The group is expanding giving opportunities for promotion
- Job security is a key concern and Whitbread is growing (Maslow)
- ‘Your Say’ employee survey reports are improving
- Leadership course (job enrichment)
- International expansion may lead to further opportunities for employees

But:

- The business has a pension fund deficit and this is a concern (pension liability is currently £598.7m)
- The final salary pension scheme has been stopped and this is a concern for new employees
- Any reasonable answer

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4 Evaluate a strategy Whitbread could adopt to maintain its expansion during a period of falling consumer incomes. [25]

	Knowledge 4 marks	Application 5 marks	Analysis 8 marks	Evaluation 8 marks
Level 3		5 marks Arguments are consistently based on case context.	6–8 marks Candidate fully develops analytical points.	6–8 marks Extensive, high-quality judgement shown.
Level 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.
Level 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.
Level 0	No rewardable response.			

Answers could include:

- Candidates should ideally use a strategic model to frame their answer (such as Porter, Ansoff or Boston)
- Concentrate on its best performing sector (Costa) (star product)
- Keep the focus on a broad range of price points (diversification)
- Further expansion into markets with barriers to competition such as motorway services (5 forces: barriers to entry)
- Further integration of the 3 aspects of the business in one site (differentiation)
- Falling consumer incomes should support the Premier Inn hotels and the cheaper restaurants (cost leadership)
- Expand into overseas markets that have growing disposable incomes such as China (market development)
- Whitbread could seek further diversification as it is primarily focused on the service sector
- Offer products/services with negative income elasticity of demand as incomes come under threat
- Should Whitbread be cautious given the fragility of world economies?
- Rate of expansion?
- Domestic and/or overseas
- Any reasonable answer