



Cambridge Pre-U

BUSINESS AND MANAGEMENT

9771/02

Paper 2 Strategic Decisions

October/November 2020

MARK SCHEME

Maximum Mark: 100

Published

This mark scheme is published as an aid to teachers and candidates, to indicate the requirements of the examination. It shows the basis on which Examiners were instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began, which would have considered the acceptability of alternative answers.

Mark schemes should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

Cambridge International will not enter into discussions about these mark schemes.

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Generic Marking Principles

These general marking principles must be applied by all examiners when marking candidate answers. They should be applied alongside the specific content of the mark scheme or generic level descriptors for a question. Each question paper and mark scheme will also comply with these marking principles.

GENERIC MARKING PRINCIPLE 1:

Marks must be awarded in line with:

- the specific content of the mark scheme or the generic level descriptors for the question
- the specific skills defined in the mark scheme or in the generic level descriptors for the question
- the standard of response required by a candidate as exemplified by the standardisation scripts.

GENERIC MARKING PRINCIPLE 2:

Marks awarded are always **whole marks** (not half marks, or other fractions).

GENERIC MARKING PRINCIPLE 3:

Marks must be awarded **positively**:

- marks are awarded for correct/valid answers, as defined in the mark scheme. However, credit is given for valid answers which go beyond the scope of the syllabus and mark scheme, referring to your Team Leader as appropriate
- marks are awarded when candidates clearly demonstrate what they know and can do
- marks are not deducted for errors
- marks are not deducted for omissions
- answers should only be judged on the quality of spelling, punctuation and grammar when these features are specifically assessed by the question as indicated by the mark scheme. The meaning, however, should be unambiguous.

GENERIC MARKING PRINCIPLE 4:

Rules must be applied consistently, e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.

GENERIC MARKING PRINCIPLE 5:

Marks should be awarded using the full range of marks defined in the mark scheme for the question (however; the use of the full mark range may be limited according to the quality of the candidate responses seen).

GENERIC MARKING PRINCIPLE 6:

Marks awarded are based solely on the requirements as defined in the mark scheme. Marks should not be awarded with grade thresholds or grade descriptors in mind.

Question	Answer	Marks												
1(a)	<p>Calculate the inventory turnover in 2018.</p> <p>Cost of sales/inventory [1] 54092/2263 [2] 23.9 [3]</p>	3												
1(b)	<p>Refer to lines 90 to 92. Calculate the forecasted UK market share for Tesco in 2023.</p> <p>Market share = (company sales/total industry sales) × 100[1] £190bn + 15.3% = £219.07bn [1] (58/219.07) × 100 [2 if not awarded for formula] 26.48% [3]</p>	3												
1(c)	<p>Comment on the usefulness of your result to <u>1(b)</u> to any <u>one</u> of Tesco's stakeholder groups.</p> <table border="1" data-bbox="320 819 1310 1317"> <thead> <tr> <th data-bbox="320 819 427 949">Level</th> <th data-bbox="427 819 871 949">Knowledge AO1 2 marks</th> <th data-bbox="871 819 1310 949">Application AO2 4 marks</th> </tr> </thead> <tbody> <tr> <td data-bbox="320 949 427 1117">2</td> <td data-bbox="427 949 871 1117">2 marks Candidate shows clear knowledge of market share and why useful</td> <td data-bbox="871 949 1310 1117">3–4 marks Candidate clearly explains the usefulness of this result using clear case context</td> </tr> <tr> <td data-bbox="320 1117 427 1249">1</td> <td data-bbox="427 1117 871 1249">1 mark Candidates shows some knowledge about market share</td> <td data-bbox="871 1117 1310 1249">1–2 marks Candidate uses limited case context</td> </tr> <tr> <td data-bbox="320 1249 427 1317">0</td> <td colspan="2" data-bbox="427 1249 1310 1317">No rewardable content</td> </tr> </tbody> </table> <p>Knowledge</p> <ul data-bbox="320 1384 1310 1485" style="list-style-type: none"> • Market share measures relative importance of business in total industry. • Changes in market share reflect competitive pressures and/or success/failure of strategies <p>Application</p> <ul data-bbox="320 1552 1310 1765" style="list-style-type: none"> • Tesco market share forecast to fall – from 27.4% to 26.47% • Reflects increased competition from Aldi/Lidl • Useful to managers – need to revise strategies to keep market share up • Useful for shareholders – may need to consider switching investment to companies with increasing market share if they are also more profitable. • Other stakeholders possible. 	Level	Knowledge AO1 2 marks	Application AO2 4 marks	2	2 marks Candidate shows clear knowledge of market share and why useful	3–4 marks Candidate clearly explains the usefulness of this result using clear case context	1	1 mark Candidates shows some knowledge about market share	1–2 marks Candidate uses limited case context	0	No rewardable content		6
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0	No rewardable content													

Question	Answer			Marks
1(d)	Analyse how Tesco could attempt to improve its inventory turnover ratio.			13
	Level	Knowledge AO1 2 marks	Application AO2 5 marks	Analysis AO3 6 marks
	3		5 marks Candidate fully engages with the case context	5–6 marks Candidate fully develops analytical points
	2	2 marks Candidate shows clear and precise knowledge about inventory control/ways to improve it	3–4 marks Candidate links case material to the answer	3–4 marks Developed analysis of arguments
	1	1 mark Candidate offers a sufficient definition/ understanding	1–2 marks Candidate makes a limited attempt to apply knowledge to the case study	1–2 marks Weak analysis of ideas, failure to develop points
	0	No rewardable content		
	<p>Knowledge</p> <ul style="list-style-type: none"> • Either increase sales (and therefore cost of sales) without increasing inventory/increase sales (cost of sales) at faster rate than inventory/reduce inventory if sales (cost of sales) stay constant <p>Application</p> <ul style="list-style-type: none"> • Mainly food products – important to have fast inventory turnover • Has improved slightly since 2017 (22.9) • Need to maintain well stocked shelves as shoppers will just go elsewhere • Jack’s likely to have higher inventory turnover as many fewer items sold – likely to be the fast moving consumer goods which are stocked in these stores <p>Analysis</p> <ul style="list-style-type: none"> • JIT would improve inventory turnover as deliveries to Tesco warehouses/shops would occur just as good were need on shelves • Increases transport costs and reduces potential for bulk discounts • Reduce range of goods available (as at Jack’s) to focus on the faster moving food and drink items <p>OFR from any figures used from Q1(a).</p>			

Question	Answer				Marks
Questions 2–4 use this mark grid:					
Level	Knowledge AO1 4 marks	Application AO2 5 marks	Analysis AO3 8 marks	Evaluation AO4 8 marks	
3		5 marks Arguments are consistently based on case context	6–8 marks Answer fully develops analytical points	6–8 marks Extensive, high quality judgement shown	
2	3–4 marks Extensive knowledge/ understanding shown	3–4 marks Candidates makes a good attempt to apply knowledge to specific case scenario	3–4 marks Developed analysis of arguments	3–4 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 case study	1–2 marks Weak analysis of the ideas, failure to develop points	1–2 marks Weak judgement shown	
0	No rewardable content				

Question	Answer	Marks
2	<p>Evaluate whether a strategy of growth by merger and takeover is the best way for Tesco to expand.</p> <p>Knowledge</p> <ul style="list-style-type: none"> • External growth by merger or takeover • Quicker than organic growth • Costly • Risks of culture clash <p>Application</p> <ul style="list-style-type: none"> • Sale of sites has raised much needed cash • Tesco already has more sites than any other supermarket • Booker takeover brought synergy benefits • Organic growth difficult with rapid growth of Aldi/Lidl <p>Analysis</p> <ul style="list-style-type: none"> • Synergy benefits can help to reduce average costs and improve competitiveness • Takeover of another supermarket would reduce competition and increase Tesco's market share • Takeover of supplying businesses would improve communication and help to reduce inventories through closer cooperation • Evaluation • Risk of losing share to Aldi/Lidl which are still opening new stores if no further Tesco store openings • Improving sales through existing stores might be more profitable option than opening expensive new stores • Jack's is better strategy to fight Aldi/Lidl than more Tesco stores • 'Finest' range of products; Hearty Food brand – these might be more effective ways of increasing sales than acquiring other businesses • Other supermarkets' strategies – will merger between Sainsbury and Asda force Tesco to acquire other businesses too? • Competition authorities most likely to object/prevent acquisition by Tesco of another supermarket business – horizontal integration 	25

Question	Answer	Marks
3	<p>Assess whether Tesco should continue to maintain a low dividend policy as a strategy to improve the company's finances.</p> <p>Knowledge</p> <ul style="list-style-type: none"> • Dividends as return to investors • Reducing dividends increases retained profits (<i>ceteris paribus</i>) • Gearing and interest cover are two ways of assessing financial strength/risk <p>Application</p> <ul style="list-style-type: none"> • Dividends zero for 2 years and very low – compared to 2006–2013 – since then • Shareholders have also experienced volatile share price – and currently quite low (one-week record) • Interest cover improved from 2.2 to 3.3; gearing down from 75.6% to 59.5% <p>Analysis</p> <ul style="list-style-type: none"> • Financial position improved from 2017 to 2018 but at a time of low interest rates. Relatively high gearing still a risk if interest rates rise. • Low dividends lead to low div yield (e.g. $3.67/220 \times 100 = 1.6\%$). Shareholders might sell up which will depress share price further – risk of hostile takeover? • Other finance options include rights issue – but unlikely to be successful with depressed share price? Or further sale of assets but would these be sold at a loss as with other sales of non-core activities? <p>Evaluation</p> <ul style="list-style-type: none"> • Better to keep dividends low until financial position further strengthened – this will allow for further investments by Tesco to increase chances of higher profits and dividends in future • Better to raise dividends as shareholders have taken quite a hit in recent years and risk of hostile bids if share price falls further is something for directors to avoid if they want to retain control. 	25

Question	Answer	Marks
4	<p>Evaluate the factors that are most likely to influence the success of the strategy of opening Jack's stores.</p> <p>Knowledge</p> <ul style="list-style-type: none"> • Market penetration strategy based on low cost/low prices • Success measured in terms of what? • Factors include: competitors' reactions; economic environment; cannibalism <p>Application</p> <ul style="list-style-type: none"> • Only one store so far • Own branded goods – not Tesco • British suppliers • Some well-known brands <p>Analysis</p> <ul style="list-style-type: none"> • Lack of real income growth might mean that there will be high demand for low priced groceries • Cannibalism may lead to no overall increase in sales for Tesco – yet higher costs of launching this new strategy • Aldi and Lidl have a successful low-cost strategy already -they are likely to respond and price wars may damage all grocery retailers <p>Evaluation</p> <ul style="list-style-type: none"> • Depends on success of branding and promotion • How effective was market research? • How quickly can other Jacks stores be opened? Unlikely to be successful nationally with just a few branches • Potential for confusing consumers – why can't I get these low prices at Tescos? • If widely known as being a Tesco owned store, with Tesco's attempt to differentiate itself be damaged? 	25