



Rewarding Learning

**ADVANCED
General Certificate of Education
2012**

Business Studies

Assessment Unit A2 1

assessing

Making Business Decisions

[AT211]

MONDAY 14 MAY, AFTERNOON

**MARK
SCHEME**

- 1 (a) Calculate the net profit margin for Botanic Inns Ltd.
- (b) Explain the importance of net profit margin to an organisation such as Botanic Inns Ltd.

	Knowledge [2]	Application [2]
Level 2	[2] Good knowledge and understanding	[2] Good application
Level 1	[1] Limited knowledge and understanding	[1] Limited application
Level 0	[0] No knowledge and understanding	[0] No application

- (a) Net Profit Margin = Net Profit/Turnover × 100,
i.e. £1.6m/21.6m × 100 = 7.4%
- (b) The Net Profit Margin will indicate how successful Botanic Inns Ltd. is with respect to keeping costs under control. It should remain consistent year on year as any significant difference in this ratio could indicate problems with cost management. The net profit fell by £900,000 and sales revenue by almost £1 million in 2010.
- important as a performance tool to compare with other firms and over time
 - can be used to inform future investment decisions
 - it indicates how well the business is controlling overheads
 - important to stakeholders, e.g. shareholders
 - indicates how well the business is coping with current economic situation.
- [4]

4

2 Analyse the current position of Botanic Inns Ltd. using any two elements of SWOT analysis.

	AO1 Knowledge and Understanding [2]	AO2 Application [2]	AO3 Analysis [2]
Level 2	[2] Candidate demonstrates good knowledge and understanding of the external environment conflict	[2] Candidate makes good application of the terms	[2] Good analysis of how the external environment can affect Botanic Inns Ltd.
Level 1	[1] Candidate demonstrates some knowledge and understanding of the terms	[1] Candidate attempts to make some application of the terms	[1] Limited analysis of how Botanic Inns Ltd. can be affected
Level 0	[0] Candidate demonstrates no understanding of the terms	[0] No attempt at application	[0] No analysis

Relevant answers may include:

- SWOT can assess the internal strengths of the business such as its extensive portfolio, highly motivated staff, excellent reputation, company image, quality awards for various outlets and being listed in the top 100 companies
- a weakness for Botanic Inns Ltd. could be the risks associated with managing an extensive portfolio
- SWOT can assess the external influences on the business. Opportunities include further development of its renewable energy sources and community programmes
- threats could include the current economic climate and its impact on customer's disposable income. [6]

- 3 Evaluate the investment option taken by Botanic Inns Ltd. to add Horatio Todd's bar/restaurant to its product portfolio.

	AO1 Knowledge and Understanding [2]	AO2 Application [3]	AO3 Analysis [4]	AO4 Evaluation [6]
Level 3		[3] Excellent application	[4] Excellent analysis	[5]–[6] Candidate gives a sound evaluation/forms a mature final judgement
Level 2	[2] Good knowledge and understanding	[2] Good application	[3] Good analysis of the points presented	[3]–[4] Candidate gives a good evaluation of the advantages and limitations presented and forms a final judgement
Level 1	[1] Some knowledge and understanding	[1] For limited application to Botanic Inns Ltd.	[1]–[2] For limited analysis	[1]–[2] For limited evaluation of the arguments presented
Level 0	[0] Candidate demonstrates no understanding	[0] Candidate demonstrates no attempt at application	[0] No analysis	[0] No evaluation

Relative points may include:

Positive

- **Capital projects are undertaken to ensure that a business can achieve operational and strategic goals.** For example, Botanic Inns Ltd. has pursued a growth strategy since 1990
- **The purchase of non-current assets to generate revenue.** Botanic Inns Ltd. purchased new premises and opened a bar/restaurant called Horatio Todd's in East Belfast expecting to generate more sales revenue
- **Expansion of current facilities to increase revenue.** "The Bot", which is the company's flagship outlet, has been extended to include three bars in the one complex and it is the biggest bar in Northern Ireland. The organisation also has an extensive portfolio (16 outlets) that includes two hotels and two off licences. This means Botanic Inns Ltd. is able to increase market share and also spread the risk just in case one of its bars goes into decline
- good way of using surplus cash
- opportunities for economies of scale
- further extend product portfolio
- if successful will ensure survival of Botanic Inns in the long term
- gap in the market, i.e. East Belfast will create a focus and sense of community
- Botanic Inns has an excellent reputation so new investment has greater chance of success
- evidence of success – awards
- job creation for local population.

Limitations

- **No guarantee of success.** Just because a business undertakes investment there is no guarantee that it will help it to meet corporate objectives
- **Unrealistic assumptions made.** These might distort results particularly if customer demand is over-estimated as sales revenue will fall. The projected sales revenue for Horatio Todd's in the first three years may be inaccurate as no-one can really predict the future
- **Might be difficult to dispose of assets.** In the event of a decline in sales in one or more of its outlets, Botanic Inns Ltd. may consider selling the premises. This may prove difficult in the current economic climate and it may have to significantly reduce the price to obtain a sale
- **Estimating annual cash flows.** To cover the expense of investment in cost-saving equipment, Botanic Inns Ltd. must have regular customers in all its outlets. The hospitality market is quite volatile and subject to influences from the external environment, e.g. competition, government legislation such as increases in taxation (VAT). Also peoples' discretionary income may decrease due to budget cuts therefore they may choose to drink at home rather than go to the pub. All of these factors will affect the firm's cash flow
- financial situation worsened in the year of the investment
- recession

- location – all other outlets in city centre
- open to investigation by competition commission.

Final Judgement

While there are a range of investment options available to an organisation such as Botanic Inns Ltd., each one must be considered carefully in relation to the changing environment in which the business operates. [15]

Candidates are expected to evaluate throughout their answer.

- 4** Evaluate the usefulness of a mission statement to an organisation such as Botanic Inns Ltd.

AVAILABLE MARKS
15

	AO1 Knowledge and Understanding [3]	AO2 Application [3]	AO3 Analysis [3]	AO4 Evaluation [6]
Level 3	[3] Excellent knowledge and understanding	[3] Excellent application	[3] Excellent analysis	[5]–[6] Sound evaluation and mature judgement
Level 2	[2] Good knowledge and understanding	[2] Good application	[2] Good analysis	[3]–[4] Good evaluation
Level 1	[1] Limited knowledge and understanding	[1] Limited application	[1] Limited analysis	[1]–[2] Limited evaluation
Level 0	[0]	[0]	[0]	[0]

Relevant points may include:

Mission statement of Botanic Inns Ltd. – “Our mission is to share a common goal with employees, to listen, to talk, to share, to deliver... We are dedicated to providing quality, value and service to customers. We welcome customer feedback and are committed to continually evaluating and improving our offerings.”

Advantages:

- a mission statement sets out what an organisation is trying to achieve, i.e. the reason why it exists. This is clear from Botanic Inns’ mission statement
- motivational for staff

AVAILABLE MARKS

- encourages customers
- it gives everyone a sense of common purpose so that all actions are geared towards the same end. It is evident that employees are really involved in the business
- it makes decisions easier by enabling options to be compared against the mission statement. Botanic Inns Ltd. can do this in terms of both customer and employees promises outlined in its mission statement
- it serves as a basis for Botanic Inns Ltd. organisational objectives and targets
- it can be effective in setting/changing organisational culture. Botanic Inns Ltd. is obviously concerned about its image and is very people orientated. This may give it a competitive edge.

Drawbacks:

- mission statements can be too vague. This is the case with Botanic Inns Ltd. as nothing is quantifiable
- mission statements may be ignored by senior management causing workers to become cynical
- mission statements are often seen as a marketing ploy rather than meaningful statements of intent
- bad PR if not achieved
- time and money to draw up and review.

Final judgement

The use of a mission statement will create a focus for everyone within Botanic Inns Ltd. and possibly attract new customers. This will raise sales revenue and profit. [15]

15

Candidates are expected to evaluate throughout their answer.

5 Evaluate the usefulness of the Boston Matrix as a decision-making tool for a business such as Botanic Inns Ltd.

	AO1 Knowledge and Understanding [4]	AO2 Application [5]	AO3 Analysis [5]	AO4 Evaluation [6]
Level 3	[3]–[4] Candidate demonstrates mature knowledge and understanding of the term Boston Matrix	[4]–[5] Candidate makes excellent application of the term Boston Matrix	[4]–[5] Excellent analysis of the benefits and limitations to Botanic Inns Ltd. of using Boston Matrix	[5]–[6] Candidate gives a sound evaluation of the arguments presented and forms a mature final judgement. QWC is excellent
Level 2	[2] Candidate gives a good understanding of the term Boston Matrix	[2]–[3] Candidate makes good application of the term Boston Matrix	[2]–[3] Good analysis of the benefits and limitations of using Boston Matrix	[3]–[4] Candidate gives a good evaluation of the arguments presented and forms a final judgement. QWC is good
Level 1	[1] Candidate demonstrates some understanding of the term Boston Matrix	[1] Candidate attempts to make some application of the term Boston Matrix	[1] Limited analysis of the benefits and limitations to Botanic Inns Ltd. of using Boston Matrix	[1]–[2] Candidate provides limited evaluation of the arguments presented. QWC is limited
Level 0	[0] Candidate shows no understanding of the term Boston Matrix	[0] No attempt at application of the term Boston Matrix	[0] No analysis of the benefits or limitations of using Boston Matrix	[0] Candidate provides no evaluation of the arguments presented. QWC is poor

Relevant points can include:

The Boston Matrix is a useful tool for firms facing decisions relating to market share and market growth.

Benefits:

- **The Boston Matrix is particularly beneficial to firms who are trying to manage a product portfolio as they must ensure a balance between the number of products in each category or quadrant of the matrix.** Botanic Inns Ltd. has an extensive portfolio that includes pubs, bar/restaurants, hotels and off-sales. In total it has 16 products to manage.
- **The Boston Matrix positions each product on a grid thus allowing management to make key decisions at each stage depending on whether the product attracts a high or low percentage of market share or potential growth rates are high or low.** Botanic Inns Ltd. has been adding to its portfolio since the 1990s so products are at various stages. For instance, The Botanic Inn is likely to be the firm's cash cow while The King's Head and bar Apartment are stars. Horatio Todd's is the latest addition so is therefore the problem child although winning an award is a good indicator that it may prove successful.
- **Using the Boston Matrix helps management to identify the appropriate time for launching new products onto the market.** Management in Botanic Inns Ltd. would have used revenue generated by the cash cows and stars to finance the opening of Horatio Todd's bar/restaurant
- **The information provided by the Boston Matrix can indicate the likely cash flow position of each product within the context of its market.** Management in Botanic Inns Ltd. may use this to inform future decisions relating to closure should any of the outlets no longer perform at an acceptable level. Such a product would be considered as a dog in the matrix
- simple business tool
- highlights when remedial action is needed
- visual tool/simple.

Drawbacks:

- using the Boston Matrix for decision making and managing the product portfolio is **no guarantee of success** for Botanic Inns Ltd.
- critics suggest that **the analysis provided is too simplistic** and does not reflect economic reality. The Boston Matrix is a theoretical model only and therefore cannot take account of all economic activity
- the hospitality environment is very volatile so **making decisions based on the predicted cash flows for each product in the portfolio can be risky**
- analysis can be affected by bias
- ignores qualitative data
- relies on expertise for analysis
- difficult for management to decide where to place each product.

Final judgement

The Boston Matrix is a useful tool for Botanic Inns Ltd. as it creates a focus for management to seriously examine the position of all products in the portfolio. However, all decisions taken should be implemented with caution.

[20]

20

Candidates are expected to evaluate throughout their answer.

- 6 Evaluate an alternative business objective to growth that may be appropriate for an organisation such as Botanic Inns Ltd.

	AO1 Knowledge and Understanding [4]	AO2 Application [5]	AO3 Analysis [5]	AO4 Evaluation [6]
Level 3	[3]–[4] Candidate demonstrates mature knowledge and understanding of the terms alternative business objective	[4]–[5] Candidate makes excellent application of the terms	[4]–[5] Excellent analysis of the chosen alternative objective	[5]–[6] Candidate gives a sound evaluation of the arguments presented and forms a mature final judgement. QWC is excellent
Level 2	[2] Candidate demonstrates a good understanding of the terms	[2]–[3] Candidate makes good application of the terms	[2]–[3] Good analysis of the benefits and limitations of the chosen alternative objective	[3]–[4] Candidate gives a good evaluation of the arguments presented and forms a final judgement. QWC is good
Level 1	[1] Candidate demonstrates some understanding of the terms	[1] Candidate attempts to make some application of the terms	[1] Limited analysis	[1]–[2] Candidate provides limited evaluation of the arguments presented. QWC is limited
Level 0	[0] Candidate shows no understanding of the terms	[0] No attempt at application of the terms	[0] No analysis of benefits or limitations	[0] Candidate provides no evaluation of the arguments presented. QWC is poor

Alternative objectives may include:**(i) Corporate Image**

Benefits

- **Draws attention to the business as this can be included in its mission statement.** Botanic Inns Ltd. refer to the importance of providing a consistent, high quality service to customers and this is only possible if employees are developed to reach excellent standards
- **Enhancing the company's external and internal image may increase market share.** Botanic Inns Ltd. is represented as a "caring" company and this is more likely to attract customers
- **Can attract quality workforce.** As Botanic Inns Ltd. operate in a "people environment" it is essential that it attracts good workers who can deliver top quality customer service. The organisation prides itself in developing the talents of all employees to do just this
- **Can motivate employees.** Botanic Inns Ltd. strives to project a very favourable image and this is likely to encourage employees to work hard to achieve targets. Also there may be some healthy rivalry between the employees of the various outlets to achieve awards for best pub, etc.
- **Giving back to the local community is another positive image.** Botanic Inns Ltd. is very much in the public eye with its fundraising activities for high profile charities. Also staff can volunteer on programmes designed to support local school and youth
- **Can give the company a competitive edge.** Botanic Inns Ltd. is the only Northern Ireland firm to be named in the prestigious Sunday Times list of the best 100 companies to work for in the UK. Also, the organisation is among the top 100 local companies in terms of financial performance and number of employees.
- **A positive image makes it easier for the business to achieve awards.** Botanic Inns Ltd. have received Investor in People award. All their outlets are Hospitality Assured and individual bar/restaurants have been acknowledged through the awards such as "best pub", etc.

Limitations

- **Can use up valuable resources.** Contributing to community projects takes both time and money as staff have to be released from their "normal" activities. Also the money spent in building up this "caring" image could possibly be better used by passing it on to the customers in the form of cheaper prices
- **No guarantee to increase market share.** If Botanic Inns Ltd. does not receive media coverage then no one will know about their efforts. Also if other firms in the industry are doing similar activities then Botanic Inns Ltd. will not achieve a competitive edge.

Final judgement

Evidence concludes that developing a positive company image is very beneficial for Botanic Inns Ltd. particularly as it operates in a very volatile market where competing on price is not really an option.

(ii) Environmental Objectives

Benefits

- **Caring for the environment is an essential part of this image.** Botanic Inns Ltd. have set targets for recycling for each of its outlets and already use renewable sources of energy
- **Increase size of customer base.** Botanic Inns Ltd. may attract “green” customers and so increase sales revenue and profit
- **Government incentives.** Opportunity to apply for grants towards investing in renewable energy sources. This will reduce initial costs of investment and generate future savings in energy
- **May give the company a competitive edge in the sector.** It is likely to generate very positive publicity for the company and so further increase sales revenue and profits.

Limitations

- **Being environmentally friendly can push up costs.** Recycling and using renewable can be expensive. Also management may have to pay for motivation strategies to encourage workers to meet these targets
- **No guarantee that it will attract more customers.** Customers may be more concerned about economics issues rather than environmental issue in recession.

Final judgement

Evidence concludes that it is very beneficial for Botanic Inns Ltd. to have a “green” objective. However, it may be overshadowed by the continuing recession as the recent report suggests that customers are being very cautious with their disposable income.

(iii) Survival

Benefits

- **It is important that management focus on keeping the business operating in the foreseeable future to protect shareholder’s investment**
- **Economic evidence suggests that survival is appropriate at this time.** Reports of pub closures.
- **Recession has impacted on sales revenue.** If this continues then tough decisions have to be made regarding employees, i.e. working hours/redundancy
- **Pre-tax profits.** These are reduced by almost £900,000 yet the business has to meet its fixed costs
- **Further investment plans.** These will have to be postponed indefinitely until the economy recovers. Management will have to justify their survival strategy to shareholders. Possible conflict regarding payment of dividends

- unites staff in common objective to ensure job security
- survival helps focus on efficiency and reducing costs so the business have a greater chance to survive.

Limitations

- Botanic Inns Ltd. has an excellent reputation. It is still trading above market trends
- The business may miss out on opportunities particularly as competitors are closing
- possible conflict with shareholders.

(iv) Profit maximisation

Benefits

- opportunity to yield maximum rewards for shareholders
- surplus profit used to invest further and increase market share
- provides opportunities to improve efficiency and make the business lean
- money can be used to gain competitive edge over competitors
- keep investors happy via dividends
- attract potential investors
- can motivate staff via profit sharing scheme.

Limitations

- the pursuit of this objective will lead to cost cutting measures
- may have negative impact on corporate image if redundancies occur
- quality may suffer if cheaper foodstuffs are used leading to a loss of customers/less chance of rewards
- going against mission statement.

Final Judgement

Evidence suggests that Botanic Inns Ltd. should consider a survival objective until the economic situation improves. It operates in a highly volatile sector that is very dependant on the level of disposable income available to consumers.

[20]

20

Total

80

Candidates are expected to evaluate throughout their answer.