



# Cambridge Pre-U

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**BUSINESS AND MANAGEMENT**

**9771/02**

Paper 2 Strategic Decisions

**For examination from 2020**

MARK SCHEME

Maximum Mark: 100

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**Specimen**

This specimen paper has been updated for assessments from 2020. The specimen questions and mark schemes remain the same. The layout and wording of the front covers have been updated to reflect the new Cambridge International branding and to make instructions clearer for candidates.

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This syllabus is regulated for use in England, Wales and Northern Ireland as a Cambridge International Level 3 Pre-U Certificate.

This document has **10** pages. Blank pages are indicated.

**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.

**Key**

ARA = Any reasonable answer

**Section 1**

Question	Answer	Marks												
1(a)	<p><b>Calculate the gross profit margin in 2010.</b></p> <p>Formula: gross profit/revenue <math>\times</math> 100 (1 mark)            41.7/396.9 (1 mark)            = 10.5% (3 marks for correct answer only)            Award 3 marks if no % sign is included.            Award 3 marks if correct to 1 or 2 decimal places.</p>	<b>3</b>												
1(b)	<p><b>Calculate the net operating profit margin in 2010.</b></p> <p>Formula: net (operating) profit/revenue <math>\times</math> 100 (1 mark)            12.7/396.9 (1 mark)            = 3.2% (3 marks for correct answer only)            Award 3 marks if no % sign is included.            Award 3 marks if correct to 1 or 2 decimal places.</p>	<b>3</b>												
1(c)	<p><b>Comment on the usefulness to Redrow’s directors of the results obtained in 1(a) and (b).</b></p> <table border="1" data-bbox="308 925 1326 1406"> <thead> <tr> <th></th> <th data-bbox="440 925 882 1010">Knowledge AO1 2 marks</th> <th data-bbox="882 925 1323 1010">Application AO2 4 marks</th> </tr> </thead> <tbody> <tr> <td data-bbox="308 1010 440 1200">Level 2</td> <td data-bbox="440 1010 882 1200">2 marks Candidate shows clear knowledge of net and gross profit and the difference between them.</td> <td data-bbox="882 1010 1323 1200">3–4 marks Candidate clearly explains the usefulness of the results using clear case context.</td> </tr> <tr> <td data-bbox="308 1200 440 1357">Level 1</td> <td data-bbox="440 1200 882 1357">1 mark Candidate shows some knowledge of net and gross profit.</td> <td data-bbox="882 1200 1323 1357">1–2 marks Candidate uses limited case context.</td> </tr> <tr> <td data-bbox="308 1357 440 1406">Level 0</td> <td colspan="2" data-bbox="440 1357 1323 1406">No rewardable response.</td> </tr> </tbody> </table> <p>Answers could include:</p> <ul style="list-style-type: none"> <li>• Definition of gross and/or net profit margin.</li> <li>• Allows a performance measure over time (comparison of 2010 figures with 2009).</li> <li>• Gross profit margin 2009 was -32.4% v 10.5% in 2010.</li> <li>• Net profit margin in 2009 was -39.4% v 3.2% in 2010.</li> <li>• Profit measures are a key performance indicator (KPI).</li> <li>• The figures indicate to the Redrow directors that the balance sheet is improving (helped by the rights issue).</li> <li>• The results help to keep shareholders informed.</li> <li>• Net profit enables the business to see how well overheads are being controlled.</li> <li>• The higher the gross and net profit margins the better.</li> <li>• Comparison with a similar business.</li> <li>• The difference between the figures suggest Redrow may have significant overheads.</li> <li>• ARA.</li> </ul>		Knowledge AO1 2 marks	Application AO2 4 marks	Level 2	2 marks Candidate shows clear knowledge of net and gross profit and the difference between them.	3–4 marks Candidate clearly explains the usefulness of the results using clear case context.	Level 1	1 mark Candidate shows some knowledge of net and gross profit.	1–2 marks Candidate uses limited case context.	Level 0	No rewardable response.		<b>6</b>
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Question	Answer			Marks
1(d)	<b>Analyse the main elements of a <b>MARKETING</b> plan that Redrow could use to attempt to increase profit margins.</b>			<b>13</b>
	Knowledge AO1 2 marks	Application AO2 5 marks	Analysis AO3 6 marks	
	Level 3	5 marks Candidate fully engages with the case context.	5–6 marks Candidate fully develops analytical points.	
	Level 2	2 marks Candidate shows clear and precise knowledge of a marketing plan.	3–4 marks Candidate links case material to their answer.	
	Level 1	1 mark Candidate offers a sufficient definition/ understanding.	3–4 marks Developed analysis of arguments.	
	Level 0	No rewardable response.		
<p>Answers could include:</p> <ul style="list-style-type: none"> <li>• Definition/stages of a marketing plan.</li> <li>• Recognition and use of the key elements of a marketing plan such as marketing audit.</li> <li>• Recognition of the corporate objectives of Redrow.</li> <li>• The marketing strategy (4Ps).</li> <li>• Price: consumers are price sensitive (elastic PED?) – should the business consider lowering prices to reduce stock? Impact on margins.</li> <li>• Product: successful New Heritage Collection. Incentives to attract first-time buyers such as free carpets.</li> <li>• Place: construct developments in high-demand areas with less exposure to government sector jobs.</li> <li>• Promotion: budgets are limited but the business could continue the award-winning Redrow TV.</li> <li>• Analysis of the performance of the strategy will be required. This could include surveys, normal distribution analysis and changes to profit margins.</li> <li>• ARA.</li> </ul>				

**Section 2**

Question	Answer				Marks																									
2	<p><b>Evaluate the impact of a sustained increase in UK interest rates on Redrow.</b></p> <table border="1" data-bbox="304 405 1334 1317"> <thead> <tr> <th></th> <th data-bbox="440 405 660 488">Knowledge AO1 4 marks</th> <th data-bbox="660 405 884 488">Application AO2 5 marks</th> <th data-bbox="884 405 1107 488">Analysis AO3 8 marks</th> <th data-bbox="1107 405 1334 488">Evaluation AO4 8 marks</th> </tr> </thead> <tbody> <tr> <td data-bbox="304 488 440 680">Level 3</td> <td data-bbox="440 488 660 680"></td> <td data-bbox="660 488 884 680">5 marks Arguments are consistently based upon case context.</td> <td data-bbox="884 488 1107 680">6–8 marks Candidate fully develops analytical points.</td> <td data-bbox="1107 488 1334 680">6–8 marks Extensive, high-quality judgement shown.</td> </tr> <tr> <td data-bbox="304 680 440 972">Level 2</td> <td data-bbox="440 680 660 972">3–4 marks Good knowledge/ understanding shown.</td> <td data-bbox="660 680 884 972">3–4 marks Candidate makes a good attempt to apply knowledge to the specific case scenario.</td> <td data-bbox="884 680 1107 972">3–5 marks Developed analysis of arguments.</td> <td data-bbox="1107 680 1334 972">3–5 marks Good judgement shown.</td> </tr> <tr> <td data-bbox="304 972 440 1263">Level 1</td> <td data-bbox="440 972 660 1263">1–2 marks Some knowledge/ understanding shown.</td> <td data-bbox="660 972 884 1263">1–2 marks Candidate makes a very limited attempt to apply knowledge to the specific case study.</td> <td data-bbox="884 972 1107 1263">1–2 marks Weak analysis of the ideas, failure to develop points.</td> <td data-bbox="1107 972 1334 1263">1–2 marks Weak judgement shown.</td> </tr> <tr> <td data-bbox="304 1263 440 1317">Level 0</td> <td colspan="4" data-bbox="440 1263 1334 1317">No rewardable response.</td> </tr> </tbody> </table> <p>Answers could include:</p> <p>Interest rate parameters:</p> <ul style="list-style-type: none"> <li>• Definition of interest rates.</li> <li>• What is the likely interest rate in its historical context?</li> <li>• How large is the increase (refer to table)?</li> <li>• How quickly will they rise?</li> </ul> <p>External to Redrow:</p> <ul style="list-style-type: none"> <li>• Reduced demand as higher rates increase mortgage costs (fixed rates?).</li> <li>• Demand for housing is sensitive to interest rates.</li> <li>• Speculative demand could fall further as net yields fall.</li> <li>• Redrow specialises in low cost homes that are often bought by first-time buyers. This segment will be extremely sensitive to interest rate rises.</li> <li>• Increased demand from downsizers?</li> </ul> <p>Internal to Redrow:</p> <ul style="list-style-type: none"> <li>• Financing costs have fallen to £12 m (2010) from £21.6 m (2009) (see accounts – largely due to the rights issue).</li> <li>• The company is no longer highly geared (2010 = 10.8%).</li> <li>• Net debt has been reduced to £47.1 m (see reduction in bank loans as an example).</li> </ul>					Knowledge AO1 4 marks	Application AO2 5 marks	Analysis AO3 8 marks	Evaluation AO4 8 marks	Level 3		5 marks Arguments are consistently based upon 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.				25
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2	<ul style="list-style-type: none"><li>• Does Redrow borrow money at market or fixed interest rates?</li><li>• Does the builder use risk management strategies such as interest rate swaps?</li><li>• Interest cover ratio operating profit/interest <math>12.7/12 = 1.06</math> (very low).</li><li>• Construction workers may demand higher pay.</li><li>• Reduce stock to minimise opportunity cost.</li><li>• Creditors to Redrow will press for quick payment.</li><li>• Redrow will try to delay payment to debtors.</li><li>• Interest rates are only one factor affecting Redrow and its customers. Other factors include employment levels and mortgage availability.</li><li>• ARA.</li></ul>	

Question	Answer				Marks
3	<b>Discuss the extent to which the Board of Directors should respond to shareholder pressure for increased returns.</b>				<b>25</b>
	Knowledge AO1 4 marks	Application AO2 5 marks	Analysis AO3 8 marks	Evaluation AO4 8 marks	
	Level 3		5 marks Arguments are consistently based upon case context.	6–8 marks Candidate fully develops analytical points.	
	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.	
	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.	
	Level 0	No rewardable response.			
<p>Answers could include:</p> <ul style="list-style-type: none"> <li>• Define shareholders and returns.</li> <li>• Returns in terms of share price and/or dividends.</li> <li>• Refer to data re FT250 and rival builder Persimmon.</li> <li>• The Morgans are possibly the largest shareholder so they have a vested interest.</li> <li>• Redrow could try to increase the sale prices of homes (unlikely).</li> <li>• Redrow could concentrate on maintaining and improving margins (possible).</li> <li>• Redrow could try and educate its shareholders that the returns are acceptable in the current environment and point to current successes.</li> <li>• What return is acceptable? And how can this be achieved?</li> <li>• The reality of an oligopoly.</li> <li>• Dividend income is unlikely in the current climate.</li> <li>• Comparison with peer businesses.</li> <li>• ARA.</li> </ul>					

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4	<p><b>Redrow is considering two alternative strategies:</b></p> <ul style="list-style-type: none"> <li>• <b>continue with the current strategy of only building residential houses</b></li> <li>• <b>diversify into the construction of commercial property as well as residential houses.</b></li> </ul> <p><b>Recommend which of these strategies Redrow should adopt. Justify your recommendation.</b></p> <table border="1" data-bbox="308 584 1334 1496"> <thead> <tr> <th></th> <th>Knowledge AO1 4 marks</th> <th>Application AO2 5 marks</th> <th>Analysis AO3 8 marks</th> <th>Evaluation AO4 8 marks</th> </tr> </thead> <tbody> <tr> <td>Level 3</td> <td></td> <td>5 marks Arguments are consistently based upon case context.</td> <td>6–8 marks Candidate fully develops analytical points.</td> <td>6–8 marks Extensive, high-quality judgement shown.</td> </tr> <tr> <td>Level 2</td> <td>3–4 marks Good knowledge/ understanding shown.</td> <td>3–4 marks Candidate makes a good attempt to apply knowledge to the specific case scenario.</td> <td>3–5 marks Developed analysis of arguments.</td> <td>3–5 marks Good judgement shown.</td> </tr> <tr> <td>Level 1</td> <td>1–2 marks Some knowledge/ understanding shown.</td> <td>1–2 marks Candidate makes a very limited attempt to apply knowledge to the specific case study.</td> <td>1–2 marks Weak analysis of the ideas, failure to develop points.</td> <td>1–2 marks Weak judgement shown.</td> </tr> <tr> <td>Level 0</td> <td colspan="4">No rewardable response.</td> </tr> </tbody> </table> <p>Answers could include:</p> <p>Option 1 (arguments for)</p> <ul style="list-style-type: none"> <li>• It is Redrow's area of expertise.</li> <li>• Some encouraging signs in the data.</li> <li>• Award-winning marketing innovation.</li> <li>• Vast experience in this sector.</li> <li>• Take advantage of cost-reduction strategy.</li> <li>• Potential to expand the land bank at reasonable prices.</li> <li>• Popular New Heritage Collection range of homes.</li> <li>• Low interest rates are helping affordability.</li> <li>• Some signs of improvement in key macroeconomic indicators.</li> </ul> <p>Option 1 (arguments against)</p> <ul style="list-style-type: none"> <li>• Lower house prices may stifle demand.</li> <li>• The credit squeeze.</li> </ul>					Knowledge AO1 4 marks	Application AO2 5 marks	Analysis AO3 8 marks	Evaluation AO4 8 marks	Level 3		5 marks Arguments are consistently based upon 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.				25
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4	<ul style="list-style-type: none"> <li>• Potential interest rate rises.</li> <li>• The company is not very diversified.</li> <li>• Very competitive sector.</li> <li>• Government austerity policies.</li> <li>• Increasing unemployment.</li> </ul> <p>Option 2 (arguments for)</p> <ul style="list-style-type: none"> <li>• Would enable some spreading of risk.</li> <li>• Ansoff Matrix strategy.</li> <li>• The sector is similar to residential building.</li> <li>• Enable diversification of market exposure.</li> <li>• Redrow started as a civil engineering company and adapted over time.</li> </ul> <p>Option 2 (arguments against)</p> <ul style="list-style-type: none"> <li>• Similar to housebuilding.</li> <li>• Porter’s Five Forces/generic strategies.</li> <li>• Demand is relatively low at the moment.</li> <li>• It is a competitive industry.</li> <li>• Redrow should not take risks in the current climate.</li> <li>• The Board and shareholders are divided on this issue.</li> <li>• ARA.</li> </ul>	

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