Solutions

Marking: **K** = knowledge, **App** = applying it to the business in the case, **An** = analysis (explaining causes and effects step by step), **Ev** = evaluation (a judgement with reasons, for this business). In calculations, **M1** is for the method and **A1** for the answer. Longer answers are marked in levels: the top level needs analysis applied to the business **and** a justified judgement.

Each answer shows the steps, then the **result**.

2.1

- $0.7 \times 200\,000 + 0.3 \times (-50\,000)$
- $140\,000 - 15\,000 = \$\mathbf{125\,000}$

2.2

- A: $90\,000 - 40\,000 = \$50\,000$
- option A

2.3

- new country: market development
- new snack: product development

3.1

- cost leadership: the firm aims to have the lowest costs in the industry, so it can charge low prices or earn high margins (K)
- differentiation: the firm makes its product different, e.g. by quality or brand, so customers pay more (K)
- cost leaders compete on price; differentiators compete on features and image (An)

3.2

- it lists internal strengths and weaknesses and external opportunities and threats (K)
- managers can match strengths to opportunities, e.g. a strong brand to a growing market (An)
- it shows weaknesses to fix before threats damage the firm (An)
- so decisions are based on a full view of the business, not one factor (An)

3.3

(a) A: EV $0.6 \times 8 + 0.4 \times 1 = \$5.2$m, net gain $\$\mathbf{2.2}$m; B: EV $0.5 \times 6 + 0.5 \times 2 = 4$, net gain $\$\mathbf{2.0}$m

(b) points to include:

- A is market development: an existing product in a new market (K)
- CoolBrew does not know foreign customers, rivals, laws or costs, so the risk is medium to high (App, An)
- B is product development: a new product for customers who already know the brand (K)
- bottled coffee needs new production and selling to supermarkets, a new skill; but the brand is already trusted (App, An)

Levels: **top** (5–6) two points, each analysed step by step and applied to this business; **middle** (3–4) analysis of one point, or two points with little development; **bottom** (1–2) relevant points, little explanation.

(c) points to include:

- A has the higher net gain, by \$0.2m, a small difference (App)
- A costs more and its failure outcome is worse: only \$1m back on \$3m (App)
- B's worst case still returns all of its \$2m cost, so it carries less risk (App)
- the probabilities are estimates; a small change, e.g. 0.5 for A's success, would make A's net gain \$1.5m (An)
- other factors: CoolBrew's finance, managers' experience abroad, and whether supermarket sales could harm the café image (An)
- judgement: B is the safer choice for a 40-shop business, as the expected gains are almost the same and the downside is far smaller; A could follow later (Ev)

Levels: **top** (9–12) analysis applied to this business, and a justified judgement that answers the question; **middle** (5–8) some analysis applied to the business; judgement weak or missing; **bottom** (1–4) relevant points, little explanation or application.