

Cambridge AS & A Level · Business 9609 · Notes

Business strategy A2

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Read first: **Business objectives**, **External influences on business activity**

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What you need to know

By the end of this topic you should be able to:

1. **Business strategy**: explain what a strategy is (a long-term plan for how the whole business will reach its objectives) and why a business needs one.
2. **Strategic management**: explain what it means and why it matters, and its three parts: **strategic analysis**, **strategic choice** and **strategic implementation**.
3. **Approaches to developing strategy**: explain, use and judge the usefulness of each of these nine approaches:
 - blue ocean strategy
 - scenario planning
 - SWOT analysis
 - PEST analysis
 - Porter's five forces
 - the core competence framework
 - the Ansoff matrix
 - force field analysis
 - decision trees (including calculating expected monetary values)
4. **Corporate planning**: explain what it means and why it is important.
5. **Corporate culture**: explain what it means and how it affects business decisions.
6. **Transformational leadership**: explain what it means and why it is important.
7. **Strategic change**: explain how managers can manage and control it.
8. **Contingency planning and crisis management**: explain what each means and why each is important.

The analysis of the external environment itself (what a change in interest rates, exchange rates or the law does to a business) is in external influences on business activity; mission statements and objectives are in business objectives. Here you need how a business turns that information into a strategy and carries it out.

Understand it

Strategy, tactics and strategic management

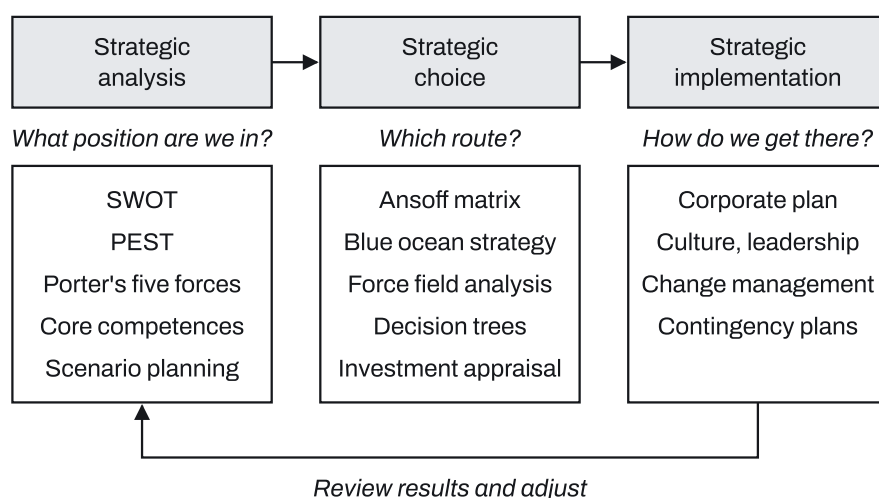
A **business strategy** is a long-term plan of action for the whole business, showing how it will use its resources to reach its vision and objectives. Its purpose is to give everyone the same **direction**, so the functions (marketing, operations, finance, human resources) pull together, resources go where they matter most, and the business builds an advantage over its competitors.

A **strategic decision** is long term, affects the whole business, commits large amounts of money or people, is hard to reverse and is made with a lot of uncertainty (opening in a new country, taking over a rival). A **tactical decision** is short term, affects one part of the business and is easy to change (a two-week price promotion). Tactics carry out a strategy.

Any decision, strategic or not, goes through roughly the same **stages**: set the objective → collect information about the situation → list the possible courses of action → choose one → put it into effect → review the results against the objective.

Strategic management is managing that process for the big, long-term decisions. It has three parts:

- **Strategic analysis:** *what position are we in?* Studying the business itself (its strengths, resources and results) and its environment (markets, competitors, the economy) to find the opportunities and dangers it faces.
- **Strategic choice:** *which route should we take?* Listing the strategic options and weighing them up, with their risks and likely returns, to pick one.
- **Strategic implementation:** *how do we get there?* Planning, resourcing, organising and leading the change, then checking progress and adjusting.



Without strategic management a business tends to react to events one at a time, its departments chase different goals, and it may drift into decisions it cannot afford. With it, decisions are based on evidence, risks are seen earlier, and progress can be measured. The cost is time, money for research and consultants, and the danger that a carefully made plan is overtaken by events in a fast-changing market.

The diagram puts each approach where it is mostly used, but several help at more than one stage. Exam questions usually test whether you can tell an **analysis** tool (it describes the situation) from a **choice** tool (it compares options).

SWOT analysis

A **SWOT analysis** lists the business's **Strengths** and **Weaknesses** (internal: things it controls, such as its brand, skills, finance and costs) and the **Opportunities** and **Threats** it faces (external: things outside it, such as a growing market or a new rival). The aim is to build a strategy that uses strengths to seize opportunities and to defend against threats, while fixing or avoiding weaknesses.

- **Useful because** it is quick and cheap, covers both internal and external factors in one place, and gives managers a shared starting point.
- **Limited because** it is a list, not an answer: it does not rank the points or say which strategy to follow. It is easily subjective (managers may overrate their strengths), and it describes one moment, so it dates quickly in a fast-changing market.

PEST analysis

A **PEST analysis** looks only at the **external, macro environment**: **Political** and legal factors (laws, taxes, government policy), **Economic** factors (growth, inflation, interest and exchange rates), **Social** factors (population, tastes, lifestyles) and **Technological** factors (new products, processes and ways of selling). It helps a business spot changes it must adapt to before they hurt it, and new markets they may open.

- **Useful because** it makes managers look beyond the business, and it is especially valuable before entering a new country or market they do not know.
- **Limited because** it says nothing about the business's own strengths and weaknesses or about its competitors; the factors are forecasts that may be wrong; it is a snapshot that must be updated; and knowing about a change does not by itself tell you what to do about it.

Porter's five forces

Porter's five forces judge how competitive, and so how profitable, an industry is likely to be:

Force	Strong (bad for profit) when ...
Rivalry among existing competitors	there are many similar firms, the market is growing slowly, products are alike
Threat of new entrants	it is cheap and easy to start up: low set-up costs, no patents, no strong brands
Threat of substitutes	customers can meet the same need with a different product
Bargaining power of buyers	buyers are few or large, or can switch to a rival cheaply
Bargaining power of suppliers	there are few suppliers, or their input is unique and hard to replace

The weaker the five forces, the more attractive the industry. The business can then shape its strategy to reduce the strongest forces: differentiate its product to soften rivalry, sign long contracts or find more suppliers to cut supplier power, build loyalty to reduce buyer power.

- **Useful because** it gives a structured view of the competition and helps decide whether a market is worth entering or staying in.
- **Limited because** it looks at the industry, not at the business's own abilities; the strength of each force is a judgement; it is a snapshot of a market that may change quickly; and it does not generate options or choose between them.

Core competence framework

A **core competence** is something a business does especially well that (1) gives it access to a range of different markets, (2) adds clearly to the benefit customers get from the final product, and (3) is hard for competitors to copy. It is usually a mix of skills, knowledge and technology, not a single product. A firm turns its competences into **core products**, usually components rather than things shoppers buy, and puts those into a whole family of finished **end products**. For example, a firm whose real skill is making very small, efficient electric motors can build them into drills, fans, toys and medical pumps.

The framework tells a business to build its strategy around what it does best, and to outsource or drop activities that are not core.

- **Useful because** it points to growth that rivals will find hard to copy and to new markets where the same skills apply.
- **Limited because** managers may misjudge what their real competences are; a competence can become worthless when technology or tastes change; it looks inwards and pays little attention to the external environment.

Blue ocean strategy

Most markets are **red oceans**: crowded with rivals fighting over the same customers, mainly on price, so profit margins are thin ("red" from the fierce competition). A **blue ocean strategy** aims to create a **new market space with no direct competitors**, by offering a combination of features that nobody else offers (**differentiation**) while keeping costs low by dropping features customers do not value. Instead of taking demand from rivals, the business creates new demand, so competition becomes irrelevant, at least for a while.

- **Useful because** it can bring high growth and profit margins and a strong first-mover position.
- **Limited because** finding a genuine blue ocean is difficult, slow and expensive; success is uncertain, so the risk is high; and once the idea works, rivals copy it and the ocean turns red.

Scenario planning

Scenario planning means describing several possible futures (for example "strong growth", "a long recession", "a new competitor enters") and working out in advance how the business would respond in each. It does not try to predict one future; it prepares the business to be **flexible**.

- **Useful because** it suits uncertain, fast-changing environments, makes managers question their assumptions, and lets the business react faster when one scenario starts to happen.
- **Limited because** it takes time and expertise, the scenarios may miss what actually happens, and it prepares responses rather than choosing an overall direction.

Ansoff matrix

The **Ansoff matrix** sets out four ways to grow, by asking whether the business will sell **existing or new products** in **existing or new markets**. Each step away from what the business already knows adds risk.

		Products	
		Existing	New
Markets	Existing	Market penetration <i>Lowest risk</i>	Product development <i>Medium risk</i>
	New	Market development <i>Medium risk</i>	Diversification <i>Highest risk</i>

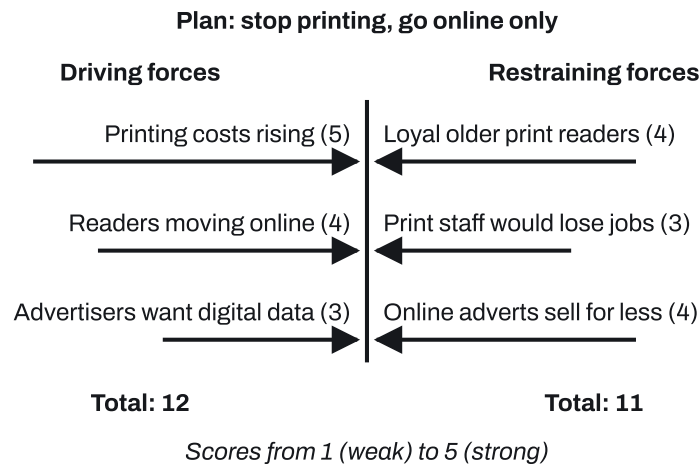
Risk rises with each step away from what the business knows

Strategy	Meaning	Risk
Market penetration	Sell more of existing products to existing customers or markets (promotion, loyalty schemes, lower prices)	Lowest
Product development	New products for existing markets	Medium
Market development	Existing products in new markets (new countries, new customer groups)	Medium
Diversification	New products in new markets	Highest

- **Useful because** it lays out the growth options clearly and shows the risk of each, so managers can match the choice to their attitude to risk and their resources.
- **Limited because** it is very simple: it does not say which option will be profitable, needs other data (market research, finance) to choose, and the risk labels are rough.

Force field analysis

Force field analysis helps decide whether to go ahead with a change. List the **driving forces** (reasons for the change) and the **restraining forces** (reasons against it, or obstacles), give each a score for its strength (often 1 to 5), and add each side up.



Here the driving forces total $5 + 4 + 3 = 12$ and the restraining forces $4 + 3 + 4 = 11$, so the change is narrowly favoured. Just as important, the analysis shows managers **what to work on**: they could weaken the restraining forces (offer retraining to print staff, help older readers move online) or strengthen the driving ones before they act.

- **Useful because** it makes managers think about both sides, including people's reactions, and points to actions that make the change more likely to succeed. It can include qualitative factors that a decision tree leaves out.
- **Limited because** the scores are subjective and can be adjusted to support what managers already want; a close total like 12 against 11 is well within the margin of opinion; and it says nothing about costs and returns in money.

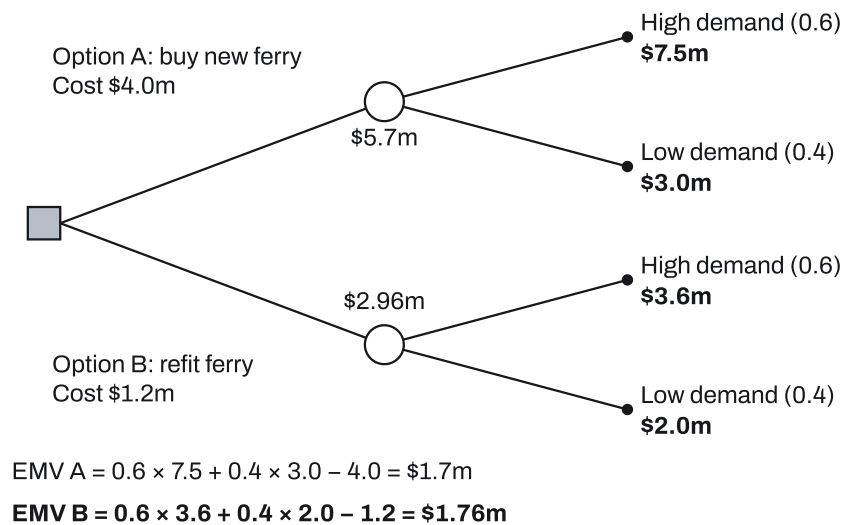
Decision trees

A **decision tree** compares options whose results are uncertain. It is drawn from left to right:

- a **square** is a **decision** point: the business chooses one branch (one option), and the cost of each option is written on it;
- a **circle** is a **chance** point: the possible outcomes, each with its **probability** (the probabilities from one circle add up to 1) and its financial result.

The **expected monetary value (EMV)** is the average result you would expect if the decision were made many times:

$$\text{EMV of an option} = \sum (\text{probability} \times \text{financial result}) - \text{cost of the option}.$$



On purely financial grounds, the option with the **highest EMV** is chosen; here option B (1.76 million dollars) narrowly beats option A (1.7 million dollars). Example 1 works through this tree.

- **Useful because** it sets the options out clearly, makes managers put numbers on risk, and gives a figure to compare options with.
- **Limited because** the probabilities and results are only estimates (often from past data or market research), so a small difference in EMV may mean nothing; the EMV is an average that will never actually happen on a one-off decision; it ignores qualitative factors (staff morale, reputation, the business's objectives) and the business's attitude to risk; and it does not show whether the business can afford the worst outcome.

Choosing between approaches

No single approach is enough on its own. A good strategy usually comes from combining an **analysis** tool for the inside of the business (SWOT, core competences), one for the outside (PEST, five forces, scenario planning), and a **choice** tool (Ansoff, force field, decision trees, investment appraisal), then planning the implementation. Which approach is "most useful" depends on the situation:

If the business ...	A good fit is ...
faces a crowded market with falling prices	Porter's five forces, blue ocean strategy
is entering a new country or market it does not know	PEST, scenario planning
needs to know what it does best before growing	SWOT, core competence framework
is choosing how to grow	Ansoff matrix
has two options with money estimates	decision trees (and investment appraisal)
faces resistance to a change	force field analysis
works in a very uncertain environment	scenario planning

Every approach also depends on the **quality of the data**, the **experience** of the managers using it, the **time and money** available, and how fast the environment is changing.

Corporate planning

Corporate planning is setting the objectives for the whole organisation over several years and deciding how resources across all its functions will be used to reach them. The result is a **corporate plan**. Typical contents:

- the **mission or vision** and the **corporate objectives**;
- an assessment of the business's **current position** and its external environment (often from SWOT and PEST);
- the **strategy** chosen to reach the objectives;
- **functional plans**: marketing, operations, human resources and finance, each with targets, budgets and deadlines;
- **who is responsible** for each part, and **performance measures** (key performance indicators) to monitor progress;
- **contingency plans** for the main risks.

The process runs: review where the business is → set objectives → choose the strategy → write and communicate the plan → allocate resources → put it into action → monitor results against targets → revise.

Why it matters: it gives the whole business one direction; it **coordinates** the functions so that, for example, operations can make what marketing plans to sell; it shows what **resources** (money, staff, capacity) will be needed and when; it lets managers **monitor** progress and spot problems early; it makes the business think ahead about change and risk; and it gives outsiders confidence. A bank deciding whether to lend to a business, or investors deciding whether to back it, will expect a clear plan.

Its limits: it takes time and money; a detailed plan can become **rigid**, so managers keep following it after the situation has changed; too much planning can make managers complacent or crowd out creative ideas; and no plan can foresee every event, especially in a dynamic market.

Corporate culture

Corporate culture is the set of shared values, beliefs and attitudes in a business that shapes how its people behave and make decisions, often without anything being written down. It grows from the founders and leaders, the business's history, its structure, how staff are rewarded, and the national culture.

One common way to describe cultures is by where power lies: a **power culture** (one person or a small group at the centre decides quickly), a **role culture** (rules, procedures and job titles matter most; stable but slow), a **task culture** (teams form around projects; flexible and creative), and a **person culture** (individual experts work largely for themselves).

Its impact on decisions: culture decides how quickly decisions are made and by whom, how much risk managers will take, whether staff suggest ideas, and whether ethics come before short-term profit. A culture that fits the strategy (for example a creative, risk-taking culture in a technology business) helps it succeed; a

culture that clashes with it holds it back. When two businesses merge, a **culture clash** between them is a common reason the merger fails. Culture is also slow and difficult to change, which matters whenever a new strategy needs people to behave differently.

Transformational leadership

A **transformational leader** inspires people to share a vision of where the business should go and motivates them to go beyond their own interests to get there. Such leaders communicate a clear and exciting vision, set an example, build trust, encourage new ideas and support each person's development. (A **transactional** leader, by contrast, manages by rewards and penalties for meeting set targets.)

Why it matters for strategy: big strategic change makes people anxious. A transformational leader can win staff over to the change, reduce resistance, and build a culture that supports the new strategy, so it is implemented faster and more fully. The limits: it depends heavily on one person (what happens when they leave?), a vision is not a substitute for a sound plan and the money to deliver it, and some staff and situations respond better to clear instructions.

Managing and controlling strategic change

Strategic change is a major change in what the business does or how it does it: a takeover, a move into a new market, new technology, a new structure. Staff often **resist** it because they fear losing their jobs, pay or status, do not understand why it is needed, are comfortable with the old ways, distrust managers, or worry they lack the new skills.

To **manage** change, managers can:

- **explain** why the change is needed and what it will mean for each group, early and honestly;
- **involve** staff: consult them, listen to their ideas, let them help plan the details;
- **train** staff in the new skills and support them during the change;
- appoint a **project champion** (someone respected who leads and promotes the change) and use project teams;
- make the change in **stages** where possible, with early successes that build confidence;
- build a **change culture** in which staff expect and welcome change, so each change meets less resistance.

To **control** change, they set clear objectives, milestones and deadlines, give each task an owner and a budget, measure progress against targets, and adjust the plan when results fall short. Transformational leadership and a supportive culture make all of this easier.

Contingency planning and crisis management

Contingency planning is preparing in advance for **unlikely but damaging events** (a fire, a cyber attack, a key supplier failing, a product recall, extreme weather). The steps: identify the possible events → judge how likely each is and how much harm it would do → decide what the business will do if it happens (who is in

charge, back-up suppliers or premises, how to communicate) → test the plan and train staff → review it regularly.

Crisis management is how the business responds **once a crisis has happened**: acting quickly, taking control of the situation, protecting people, communicating openly with customers, staff, the media and authorities, and getting operations back to normal while protecting the business's reputation.

The two are linked: a business with a tested contingency plan finds crisis management much easier, because the decisions about who does what were made calmly beforehand.

Why they matter: the business recovers faster, so it loses less revenue and fewer customers; a quick, honest public response protects its reputation; stakeholders (customers, investors, lenders, insurers, regulators) are reassured that risks are under control; and the planning process often reveals ways to stop a crisis happening at all. **Limits**: plans cost time and money for events that may never happen; it is impossible to foresee every crisis; and a plan that is never tested or updated may fail when needed.

Key facts and formulas

There is no formula list for this subject in the exam. "Learn it" means you must remember it.

Formula or fact	Status
EMV of an option = $\sum(\text{probability} \times \text{financial result}) - \text{cost of the option}$	Learn it
On a decision tree, the probabilities of the outcomes from one chance node add up to 1	Learn it
Decision tree symbols: a square is a decision point, a circle is a chance point	Learn it
Force field analysis: compare total driving forces with total restraining forces; weaken restraining forces or strengthen driving forces to make a change succeed	Learn it
Percentage change = $\frac{\text{new} - \text{old}}{\text{old}} \times 100$	Learn it
Strategic management: strategic analysis, strategic choice, strategic implementation	Learn it
SWOT: strengths and weaknesses are internal; opportunities and threats are external	Learn it
PEST: political, economic, social, technological (external factors only)	Learn it
Porter's five forces: rivalry, threat of new entrants, threat of substitutes, buyer power, supplier power	Learn it

Formula or fact	Status
Ansoff matrix: market penetration (lowest risk), product development, market development, diversification (highest risk)	Learn it
Blue ocean strategy: create uncontested market space through differentiation at low cost; red ocean: crowded, existing markets	Learn it

How to do it

We have tagged 55 questions on this topic (2021–2026): old Paper 3 20-mark essays (2021–2022), Paper 4 20-mark essays (2023–2026), new Paper 3 questions (2024–2025) and one Paper 1 short answer (2021). Two of them are two types at once, so the counts add up to 57.

Question type	Questions
Judge whether one named approach is the most useful, or enough, to develop a strategy	13
Evaluate strategic choice techniques or data for choosing between options	12
Evaluate corporate planning, or what a corporate plan should contain	6
Evaluate the effectiveness or importance of strategic management	5
Recommend the best approach, or judge the approaches a business used	5
Use accounting data and ratios to develop or choose a strategy	4
Evaluate how strategic change is managed	4
Analyse or evaluate contingency planning and crisis management	3
Evaluate the impact of corporate culture or leadership on strategy	2
Calculate expected monetary value from a decision tree	1
Define strategy and explain stages of decision-making	1
Advise on the impact of government policy changes on strategy	1

The marks are for four skills: **K** (knowledge: a correct definition or explanation), **App** (application: using facts from the case to support a point, not copying them), **An** (analysis: a chain of causes and effects) and **Eval** (evaluation: a supported judgement). Below, (K), (App), (An) and (Eval) after a sentence show the mark it earns.

The 20-mark essay (Paper 4, and old Paper 3 Questions 6 and 7) is marked out of 3 K, 2 App, 8 An, 7 Eval:

- **K first.** No other marks are given until you show some knowledge. One term explained with two developments (say what it is, then two more points about how it works) gets all 3 K; so do two terms each partly explained. Writing out what an acronym stands for (SWOT, PEST) is not enough: say what the tool does.

- **An.** One link is limited (Level 1). A developed chain of several links is Level 2. Level 3 needs a developed point **and its counter-argument** (why it might not work, or what the tool misses). Doing this twice reaches the full 8.
- **Eval.** A judgement that answers the question, supported by reasons, developed, **and tied to this business's facts** (Level 3). Evaluation is over a third of the marks, so build it through the answer, not in one line at the end.
- **Time.** About 30 minutes per essay after reading the case. Two or three well-developed arguments beat a tour of every tool.

The steps below assume this structure.

1. Judge whether one named approach is the most useful, or enough, to develop a strategy (13 questions)

The case names one tool (PEST, Porter's five forces, blue ocean strategy, force field analysis, SWOT, scenario planning, core competences or Ansoff) and asks you to advise whether it is the best way, or a sufficient way, for this business to build its new strategy.

1. **K:** explain the named tool properly, with two developments. Then explain one or two alternatives briefly for extra K. The case naming the tool is not knowledge; your explanation is.
2. **App:** pick the case facts the tool would work on (the rivals, the suppliers, the economic changes, the competences listed) and say what the tool would show about them.
3. **An, for:** how the tool would help *this* business shape a strategy: what it reveals → what decision that leads to → the effect on sales, costs or profit.
4. **An, against:** what the tool leaves out for this business (internal factors for PEST and five forces; the outside world for core competences; numbers for force field; qualitative factors for decision trees), that it is a snapshot or subjective, or that the data behind it is weak. Bring in **one** alternative that covers the gap and analyse it the same way. Keep the named tool at the centre: answers that spend most of their time on other tools miss the judgement.
5. **Eval:** say clearly whether the named tool is the most useful (or enough). Usual conclusions: useful as a starting point but not enough alone; best combined with one named other tool. Say what it depends on: how reliable the data is, how fast the market changes, whether the business is staying in its market or diversifying, the managers' experience, time and money.

Variants: if the question asks whether the tool is **enough**, the usual answer is no, followed by what to add and why; if it asks whether the tool is the **most useful**, you need a comparison with at least one other tool. For blue ocean strategy, ask whether the business is really in a red ocean, whether it has the money and patience to search for a new market, and how quickly rivals would copy it.

2. Evaluate strategic choice techniques or data for choosing between options (12 questions)

Mostly old Paper 3: an appendix gives data for two options (a decision tree, force field scores, investment appraisal results, Ansoff positions), and you judge how useful the techniques or the data are, whether they remove risk, or which technique is more useful.

1. **K:** explain what strategic choice is (the second stage of strategic management) and the techniques in the appendix. Analysis tools such as SWOT and PEST earn only knowledge here: they describe the situation but do not compare options.
2. **App and An:** **interpret** the data, don't recopy it. Work out or quote the EMVs and the gap between them, total the force scores, note which Ansoff quadrant each option is in and so its risk, compare payback or ARR.
3. **An, limits:** probabilities and forecasts are estimates; force scores are subjective; investment appraisal over many years is uncertain; quantitative techniques leave out people and reputation; force field leaves out money.
4. **Eval:** the question is about the **techniques**, not which option to pick. Judge which technique (or which combination) is most useful, whether the data is enough (what else is missing: market research, finance, the business's objectives), and note that no technique can remove risk; it can only make it clearer.

Variant (new Paper 3, 12 marks): after calculating an EMV (type 10), evaluate whether to choose that option. Use the EMVs, and also the worst outcome, the cost and how it would be financed (gearing, interest rates, liquidity), the reliability of the forecasts, and fit with the objectives. Example 1 shows this.

3. Evaluate corporate planning, or what a corporate plan should contain (6 questions)

1. **K:** define corporate planning and outline the process (objectives → strategy → functional plans and resources → monitoring and review).
2. **When the question is about its importance:** analyse two or three benefits in context: coordinating functions for a new option, planning the finance (and showing a lender a plan), anticipating risks, giving staff direction. Then the counter-arguments: cost and time, rigidity in a fast-changing market, plans overtaken by events. **Eval:** how important it is for *this* business depends on the size of the change, how uncertain the market is, and the quality of management.
3. **When a crisis has already happened** and you judge whether planning would have stopped it: show which parts of a plan (forecasting demand, resources, communication between functions, contingency plans) would have caught the problem, then argue what planning could not have foreseen (the external environment, customers' or competitors' reactions). Judge the extent.
4. **When you must choose what goes into a plan:** pick the two or three most important elements for this business (for a new business seeking a loan, the financial plan and the strategy; for an expansion, the operations and human resource plans) and explain why each matters here; then judge which matters most.

4. Evaluate the effectiveness or importance of strategic management (5 questions)

1. **K:** define strategic management and its three stages.
2. **Judging past strategic management** (how well it worked over a period): work through the stages with evidence from the case:
 - **analysis:** which tools did it use, and were they appropriate and up to date?
 - **choice:** was the option chosen sensible given the analysis, the risks and the finance (check the ratios given, such as gearing and liquidity)?
 - **implementation:** were objectives, roles and deadlines clear and realistic? Were the results (revenue, profit, market share) in line with the objectives?
3. **An:** for each stage, a point that went well and one that went badly, each developed.
4. **Eval:** judge overall effectiveness and which stage was strongest or weakest. Judge what the business **did**; don't switch to what it should do next. Say what it depends on: the time scale, competitors, the external environment, whether the results are due to the strategy or to luck.

Variants: the importance of the analysis stage alone (it comes before choice and reduces risk, but is only as good as its data and dates quickly); whether one big decision, such as a takeover, was the right one (judge it through analysis, choice and implementation); the part leadership played (see type 9).

5. Recommend the best approach, or judge the approaches a business used (5 questions)

1. **K:** explain two approaches (one fully, or two partly, earns all 3 K).
2. **Recommend:** choose two or three approaches that fit the case. For each, analyse how it would help this business develop its strategy, and what it would miss. Remember decision trees help **choose between** options but do not create them, and need data the business may not have.
3. **Eval:** if the question asks for **the** most appropriate approach, recommend **one** and say why it beats the others for this business; if it allows "approaches", a justified combination is fine.
4. **Judging approaches already used:** for each tool the case shows, how useful it was (did it lead to good decisions?) and its limits (dated, subjective, weak data in a new or fast-moving market). Then judge which was most useful and what else should have been used.

6. Use accounting data and ratios to develop or choose a strategy (4 questions)

These Paper 4 questions link this topic to the finance topics.

1. **K:** explain the statements or ratios named (statement of profit or loss, statement of financial position, gearing, ROCE, liquidity ratios).
2. **App and An:** connect each figure to a strategic option. Low gearing → room to borrow for a takeover; high gearing → expansion needs share capital or retained profit; low liquidity → a cash-hungry option is risky; rising margins → profits to reinvest.
3. **Counter:** accounts are historic, may be window-dressed, need comparisons (past years, competitors) to mean much, and leave out non-financial factors (staff, brand, the market).

4. **Eval:** judge how far the data should decide the strategy, which figures matter most, and what other information is needed.

7. Evaluate how strategic change is managed (4 questions)

1. **K:** define strategic change and change management; explain why staff resist change.
2. **An:** analyse two or three techniques (communication, involvement, training, a project champion, staged change, a change culture), each in context: how it reduces resistance → smoother implementation → the option's objectives are reached.
3. **Counter:** each technique costs time and money, consultation can slow decisions, and some resistance cannot be removed (if jobs really will be lost).
4. **Eval:** which technique matters most here, and what success depends on (leadership, culture, how big the change is, whether two cultures must be merged). The decision has already been taken: don't argue about whether it was the right one.

8. Analyse or evaluate contingency planning and crisis management (3 questions)

New Paper 3 "analyse two benefits" [8]: 2 K, 2 App, 4 An, no evaluation.

1. **K:** define contingency planning or name a benefit (1 K each). Knowledge is capped at 2 marks in total, so a definition plus two benefits still earns only 2.
2. **App:** tie each benefit to the case **once:** the event that happened or could happen, the stakeholders involved.
3. **An:** a chain of at least two links for each, ending in sales, profit, reputation or a future plan. Benefits to use: a faster, organised response so less damage and lost revenue; a quicker, better public response that protects reputation; reassurance for customers, investors, lenders or regulators; fewer crises, because the planning finds risks that can be removed.
4. Write about benefits only, and only two.

Older 20-mark version: evaluate the importance of contingency planning to future profitability or to a new strategy (such as diversification). Analyse benefits and costs, then judge: how dynamic the environment is, how serious and likely the risks are, the cost of planning, and that some events cannot be foreseen at all.

9. Evaluate the impact of corporate culture or leadership on strategy (2 questions)

1. **K:** define corporate culture (with a type if it helps) or transformational leadership.
2. **An:** how the culture or leadership in the case helped the strategy succeed (fast decisions, innovation, motivated staff, ethical reputation) and how it may have hindered it (resistance to change, a clash after a takeover, too much risk-taking).
3. **Combine evidence.** One decision on its own is weak support. Draw several pieces of case evidence about the same quality (for example every time the leader communicated a long-term aim) into one argument.

4. **Eval:** how much of the success came from culture or leadership rather than other factors (the market, finance, the product), and whether it will still help in future (after a takeover, a new leader, a new market).

10. Calculate expected monetary value from a decision tree (1 question)

The 4 marks build up step by step, so show every step:

1. Multiply each outcome by its probability. One correct product earns 1 mark.
2. Add the products to get the expected value: 2 marks so far.
3. Subtract the cost of the option: 3 marks so far.
4. Give the final answer with its units, such as "2.3 million dollars": all 4 marks. A correct answer without the units gets 3.

If you are not sure of the method, a correct definition of EMV still earns 1 mark.

11. Define strategy and explain stages of decision-making (1 question)

- **Define strategy (2 marks):** a long-term plan (1) to achieve the objectives of the whole business (1).
- **Explain two stages of decision-making (3 marks):** name two stages (setting objectives, gathering information, identifying options, choosing, implementing, reviewing) and say what happens in each and why.

12. Advise on the impact of government policy changes on strategy (1 question)

Covered in external influences on business activity. Analyse each policy's effect on the **strategy** (not the policy in general): a grant cuts the cost of a planned investment, a minimum wage rise raises costs for a labour-intensive plan, removing trade barriers opens export markets. Counter-balance each, then judge which policy matters most and the overall effect on the strategy.

Worked examples

Example 1

Kestrel Ferries (KF) runs a car ferry between the mainland and an island. Its only ferry is 25 years old. The directors must choose between two options:

- **Option A:** buy a larger new ferry for 4.0 million dollars, financed by a bank loan;
- **Option B:** refit the current ferry for 1.2 million dollars, paid from retained profit.

KF's managers estimated its net cash inflows over the next five years, using ticket sales from the past ten years. With high tourist demand (probability 0.6): option A 7.5 million dollars, option B 3.6 million dollars. With low demand (probability 0.4): option A 3.0 million dollars, option B 2.0 million dollars. KF's gearing is already 55%. The island council plans to build a 200-room hotel within three years.

(a) Calculate the expected monetary value (EMV) of option A. [4]

(b) Evaluate whether KF should choose option A. [12]

The decision tree in "Understand it" shows these figures.

(a) High demand: $0.6 \times 7.5 = 4.5$ (1). Low demand: $0.4 \times 3.0 = 1.2$ (1). Expected value $4.5 + 1.2 = 5.7$ (1).
 $EMV = 5.7 - 4.0 = 1.7$ million dollars (1).

(b) A decision tree compares options whose outcomes are uncertain by weighting each outcome by its probability (K). The EMV is the average return expected after the cost of the option (K).

Option B's EMV is $0.6 \times 3.6 + 0.4 \times 2.0 - 1.2 = 2.96 - 1.2 = 1.76$ million dollars, only 0.06 million dollars (60,000 dollars) more than option A's 1.7 million dollars (App). On EMV alone KF should refit the old ferry (An). But the difference is tiny compared with the size of the forecasts, so a small error in the managers' estimates could reverse the ranking (An).

The outcomes also differ in risk. If demand is low, option A returns 3.0 million dollars on a ferry costing 4.0 million, a loss of 1.0 million dollars, while option B still gains $2.0 - 1.2 = 0.8$ million dollars (App). Option A would be paid for with a loan when KF's gearing is already 55%, so its interest payments would rise and a low-demand outcome could leave it struggling to repay (An).

Evaluation. Option A only makes sense if KF is confident demand will be high: the best outcome for A ($7.5 - 4.0 = 3.5$ million dollars) is well above B's ($3.6 - 1.2 = 2.4$ million dollars) (Eval). The past ten years of ticket sales say nothing about the council's new hotel, which makes high demand more likely than 0.6 suggests, and a 25-year-old ferry may soon need replacing anyway, so the refit may only delay the purchase (Eval). Against that, the hotel is only planned, not built, and with gearing at 55% the lender may refuse the loan or charge a high rate (Eval). KF should not decide on EMV alone: it should check the hotel's timing, get a quote for the loan and a survey of the old ferry's remaining life (Eval). On the present evidence, option B is the safer choice because its EMV is slightly higher and it cannot make a loss, but if the hotel is confirmed and the ferry's life is short, option A becomes the better long-term choice (Eval).

The marks: 2 K, 2 App, 2 An and 6 Eval for a judgement in context that uses the EMVs, the risk of each option, the finance and what the decision depends on.

Example 2

Tidewater Live (TL) runs a three-day outdoor music festival on a riverside site each summer, selling 20,000 tickets at 120 dollars each. Last year a storm forced TL to close the site for half a day; refunds cost 90,000 dollars and angry posts spread online. TL's licence from the local council must be renewed every year, and its main sponsor pays 300,000 dollars a year.

Analyse two benefits to TL of contingency planning. [8]

A faster, organised response. Contingency planning means preparing in advance how the business will respond to unlikely but damaging events (K). Ticket revenue is $20,000 \times 120 = 2,400,000$ dollars, and last year's half-day closure cost 90,000 dollars in refunds, $\frac{90,000}{2,400,000} \times 100 = 3.75\%$ of it (App). With a plan for

storms already agreed (weather warnings, covered areas, a set procedure for pausing and restarting acts), TL could reopen within hours instead of closing for half a day (An), so fewer refunds are paid and fewer ticket holders feel let down, protecting both this year's profit and next year's ticket sales (An).

Reassuring stakeholders. A tested plan shows outside groups that risks are being managed (K). TL depends on the council renewing its licence every year and on a sponsor worth 300,000 dollars (App). If the council sees a clear plan for evacuating the site safely in bad weather, it is more likely to renew the licence, so the festival can go ahead and earn its revenue (An); the sponsor is also more likely to renew if it is confident its brand will not be linked to another chaotic event, keeping a large source of income (An).

Each point has K, App and a two-link chain: $2K + 2App + 4An = 8$.

Example 3

Cobalt Climbing (CC) owns four indoor climbing centres in city J. Its revenue fell from 3.2 million dollars in 2023 to 2.72 million dollars in 2025. Two new climbing centres opened in city J in 2025, and trampoline parks and gyms also compete for customers' leisure spending. 60% of CC's revenue comes from monthly memberships, which members can cancel with one month's notice. CC buys its wall panels and climbing holds from only two specialist suppliers. A new centre costs about 1.5 million dollars to open, and large suitable buildings are scarce in the city. CC's route setters are known for creative climbs, and its coaching programme for children has a waiting list of 140. The operations director wants to use Porter's five forces to develop a new strategy.

Advise CC's directors on whether Porter's five forces is the most useful approach to develop a new business strategy. [20]

Knowledge. Porter's five forces judge how competitive, and so how profitable, an industry is (K). They look at the rivalry between existing firms, the threat of new entrants, the threat of substitutes, and the bargaining power of buyers and of suppliers (K). The stronger these forces, the harder it is to make a high profit, so the tool shows a business which pressures its strategy must deal with (K).

How it would help. Revenue fell by $\frac{3.2 - 2.72}{3.2} \times 100 = 15\%$ in two years, the same period in which two rival centres opened (App). The five forces would show that rivalry is now intense and that buyer power is high, because members can leave with a month's notice and try a rival (App). This tells the directors that cutting prices would only start a price war they cannot win, so the strategy has to give members a reason to stay, such as better routes or longer-term membership deals; fewer cancellations would protect the 60% of revenue that comes from memberships (An). However, the tool only describes the pressures; it does not say which response will work best, and the directors' judgement of how strong each force is may be wrong (An).

The tool would also show that the threat of further entrants is lower than it looks, because a new centre costs about 1.5 million dollars and suitable buildings are scarce (An). CC could therefore focus on defending its four centres rather than rushing to open more, which saves capital (An). On the other hand, substitutes such as trampoline parks and gyms are a growing threat that a new climbing strategy may not answer, and the analysis is a snapshot: two rivals opened in a single year, so it would need updating often (An).

What it misses. The five forces look at the industry, not at CC itself. A core competence framework would show what CC does better than its rivals: its creative route setting and a children's coaching programme so popular that 140 are waiting (An). That points directly to a strategy, such as expanding coaching into a separate, high-demand product that the new centres would find hard to copy, raising revenue without a price war (An). But competences alone ignore the new rivals, so on their own they could lead CC to invest in coaching while members keep drifting away (An).

Evaluation. Porter's five forces is useful for CC because its main problem is clearly competition: it explains why revenue fell 15% and warns against price cuts (Eval). It is not the most useful approach on its own, though, because it diagnoses the pressure without pointing to an answer, while CC's coaching waiting list shows it has a strength the five forces would never reveal (Eval). The most useful approach is to combine them: the five forces to understand the threat from the two new centres and from substitutes, and the core competence framework to build the strategy around what CC does best (Eval). How useful either tool is depends on the quality of the information about rivals, on how quickly the directors need to act before more members leave, and on whether their objective is to recover lost revenue or to grow (Eval). Overall, I would advise the directors to use the five forces as the starting point but not as the whole approach (Eval).

The marks: 3 K for the tool explained with two developments; 2 App from the revenue fall and the membership terms; Level 3 An for developed points that are each counter-balanced, twice; Level 3 Eval for a clear judgement on "most useful", supported in CC's context with what it depends on.

Common mistakes

- **Mixing up analysis and choice.** A question about choosing between two options wants Ansoff, force field, decision trees or investment appraisal; SWOT and PEST describe the situation and earn little there. Know which job each tool does.
- **Picking the option instead of judging the technique.** If the question asks how useful the techniques or the data are, deciding which option the business should take misses the point. Judge the tools.
- **Recopying the appendix.** Listing the PEST factors or the force scores from the case earns nothing on its own. Say what the data shows and what it means for the decision.
- **Stopping at the letters.** Knowing what each letter of SWOT or PEST stands for is only the start. The knowledge marks come from explaining what the tool does for a business and how it shapes a strategy.
- **Drifting away from the named tool.** When the question names one approach, it must stay at the centre of the answer. One alternative for comparison is plenty.
- **Covering every tool thinly.** Nine tools in nine sentences gives no developed analysis. Choose two or three and develop each with a counter-argument.
- **Arguing about the decision in an implementation question.** Once the case says the option has been chosen, write about how to implement it (planning, change management, culture), not whether it was wise.
- **Generic planning answers.** "Planning gives direction" with no link to the case earns knowledge only. Show what this business's plan must cover and why.
- **Giving advice when asked to judge the past.** A question about how well a business managed its strategy over earlier years wants a verdict on what it did, not a plan for what it should do next.

- **Ending on "it has pros and cons".** That is not a judgement. Say which side wins for this business, for example by weighing the cost of a contingency plan against how likely and how damaging its main risks are.
- **Leaving evaluation to the last line.** About a third of the 20 marks are for evaluation; build judgements into each section and finish with a clear answer.
- **Running out of time.** Spending 45 minutes on the first essay leaves too little for the second. Plan both before writing.

How to get the marks

- **Command words.** *Analyse* (Paper 3, 8 marks): two developed chains in context, no judgement needed. *Evaluate*: analyse both sides, then make a supported judgement. *Advise* (Paper 4): weigh the arguments and give clear advice to the person named, with reasons from the case. "Most useful" and "sufficient" need a direct yes or no and why.
- **Knowledge opens the gate.** Start with a precise explanation of the key term in the question (the named tool, strategic management, corporate planning, contingency planning), with two developments. Without it nothing else is marked.
- **Application means using, not copying.** A number from the case used in a point (a revenue fall worked out as a percentage, the gap between two EMVs, a gearing ratio linked to a loan) is strong application.
- **Counter-balance every main point.** In 20-mark answers, each developed argument followed by "however ..." with its own development is what lifts analysis to Level 3.
- **Judge in context.** Level 3 evaluation names this business's facts. "It depends on the data" is weak; "it depends on whether the managers' 0.6 probability allows for the new hotel" is strong.
- **Decision tree calculations.** Show each probability $\times$ outcome, the total, the cost subtracted, and the units (millions of dollars). A correct method earns marks even if you slip on the arithmetic.
- **Combining tools is a valid conclusion**, as long as you say which ones and why for this business; if the question asks for one approach, give one.

Quick check

1. Define business strategy, and give two differences between a strategic decision and a tactical decision.
2. Brightwell Software is deciding whether to launch a new app costing 250,000 dollars. Forecast returns: strong sales (probability 0.25) 800,000 dollars; average sales (0.5) 300,000 dollars; weak sales (0.25) 50,000 dollars. Calculate the EMV of launching the app.
3. A bakery is considering four plans. Name the Ansoff strategy for each: (a) selling its existing bread to cafés in a town it does not yet serve; (b) launching a gluten-free range for its current customers; (c) a loyalty card for current customers; (d) opening a cookery school.
4. A hotel is considering turning its restaurant into conference rooms. Driving forces: growing business bookings (4), the restaurant makes a loss (5), conference rooms need fewer staff (2). Restraining forces: cost of conversion (4), loss of wedding parties (3), staff opposition (3). (a) Total each side. (b) What does

the result suggest, and give one limitation of the method.

5. Explain the difference between contingency planning and crisis management, using a ski resort as an example.

Answers

1. A business strategy is a long-term plan for how the whole business will use its resources to reach its objectives. A strategic decision is long term and affects the whole business; a tactical decision is short term and affects one part. Strategic decisions also commit large resources and are hard to reverse; tactical ones are small and easy to change.
2. $0.25 \times 800,000 = 200,000$; $0.5 \times 300,000 = 150,000$; $0.25 \times 50,000 = 12,500$. Total 362,500. EMV = $362,500 - 250,000 = 112,500$ dollars.
3. (a) Market development. (b) Product development. (c) Market penetration. (d) Diversification.
4. (a) Driving: $4 + 5 + 2 = 11$. Restraining: $4 + 3 + 3 = 10$. (b) The change is narrowly favoured, so the hotel could go ahead, preferably after reducing the restraining forces (for example by consulting staff and offering them roles in the conference business). Limitation: the scores are subjective, so a gap of 1 could easily be reversed by a different manager's opinion; it also ignores the money involved.
5. Contingency planning is done in advance for an unlikely but damaging event: the resort plans what it will do if a lift breaks down with skiers on it (who is in charge, rescue equipment, staff training, how to inform guests). Crisis management is the response once the event happens: rescuing the skiers quickly, giving guests clear information and refunds, and talking honestly to the media to protect the resort's reputation.

Past questions to try

- **9609/43/M/J/23 Q2**: whether the core competence framework is enough to develop a new strategy.
- **9609/31/O/N/22 Q6**: decision tree analysis against force field analysis for a strategic choice.
- **9609/41/O/N/24 Q1**: how far corporate planning could have prevented a crisis.
- **9609/42/O/N/23 Q1**: the impact of corporate culture on a business's success.