Mock Exam 2

BUSINESS **9609**

Paper 4 Case Study **1 hour 15 minutes**

MARK SCHEME

Maximum Mark: 40

Published

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Paper 4 - PGP

Q1. Evaluate PGP's strategy for growth between 1995 and 2018. [20]

A growth strategy is a business's plan for overcoming current and future challenges to realize its goals for expansion. This has been done by PGP in a number of ways between 2011 and 2018.

Being state owned till 1995, PGP operates as a horizontally integrated business controlling the complete production process from extraction to retail. This has helped PGP benefit from lower costs due to possible economies of scale and maintain better quality standards overall in the business. PGP operates in over 50 countries whereas having its head office in only Country X.

In 2011, PGP got privatized, being able to charge higher prices and benefit from higher profits. However, the pay of managers was now high but that cannot be an indication of higher overall labor costs unless the number of managers, now and then (state owned) are specifically known. The operating profit has significantly increased being the biggest benefit of getting privatized, especially now that PGP is a public limited company and needs to retain its shareholders for a long time.

The business also showed signs of efficiency and innovation by developing a greater number of new products than that being developed before. It also considered investigating renewable energy sources, which would have made its demand more inelastic. PGP could have even gained government support, if it qualified for a subsidy (appendix 1), leading to lower per unit costs and greater profit margins.

In 2014, there was a fall in oil price, which brought up the need for cost cutting on the part of PGP, to maintain its profit margins. It outsourced its HRM and accounting functions to low income countries. Although, this might have led to lower costs, communication was a problem and the expertise of the business carrying out these functions could be questioned. However, outsourcing transport in country X was beneficial and saving $11m from the sale of distribution centers and trucks, could be reinvested in the business.

PGP must increase its capacity utilization rate to lower its per unit costs by making use of the excess capacity. There has been an indication of poor manager performance with the inaccurate sales forecasts (as mentioned in appendix 2), causes of which PGP must look into.

PGP decided to remove two levels of hierarchy, in 2016. What proved to be a disadvantage of this decision were the possible redundancies created and the negative publicity it brought as a result. It also made variations to the roles of managers and employees, success of which could depend on their willingness to adapt to these changes.

In 2018, PGP's ROCE was much less than the industry average. Due to this, the shareholders would have been concerned about the lower dividend rates they would be getting, due to lesser company profits. The gearing ratio of PGP being 40% (as shown in table 3) is much higher than the industry average. However, the loan structure of PGP is unknown and as it is a public limited company, having access to good capital injections, there may not be too much of a need to acquire capital through loans. This can be an indication of errors in the data generated, possibly from the outsourced supplier carrying out PGP accounting functions. Even if this isn't the case, gearing ratio is still less than 50%, reducing chances of any resentment amongst shareholders and stakeholders of PGP.

As an overall growth strategy, it can be assumed that PGP grew in size and scale operating in 50 countries. Profitability also increased significantly as a result of privatization, until 2017. Any assumptions about profitability after that cannot be made, since there have been issues in capacity utilization, hierarchal organizational structure and possible errors in the accounting data outsourced, making it difficult to draft any conclusions about the now profitability situation and hence the strategy of PGP in 2018.

Q2- Advise PGP on which approaches they should use to develop a new business strategy [20]

Strategic management is the ongoing planning, monitoring, analysis and assessment of all necessities an organization needs to meet its goals and objectives. Changes in business environments will require organizations to constantly assess their strategies for success.One of their main objectives is to achieve profitability through sustainability.

The current business objective is to explore the untapped market of renewable energy as an action taken for future growth.For this the business can use blue ocean strategy which helps to create space in a new market by product differentiation. It will enable PGP to measure its strengths and weaknesses of going for the renewable energy sources and make a decision accordingly.

One of the aims of PGP is to identify new market opportunities for which carrying out a SWOT analysis may be useful as it identifies the opportunities for profit and growth of businesses. This may help PGP decide what can be the benefits of entering new markets and which of the markets would actually be profitable to capture. However, it may be difficult to carry out this analysis and keep it up to date due to dynamic market conditions.

PGP aims to develop business options for farming the land for which it can use the Force field analysis model to weigh up the driving and restraining forces of going for each option and then choose the option which has the greater driving forces. It could see which option is more profitable, has access to better and cheap labor and all other factors of production are easily accessible.

It aims to focus on developing core competencies for which the core competencies model can be used which will help them enter new markets and products, deliver a significant customer benefit and also help them become market leaders by providing the best oil and gas services. It will also be a suitable option for PGP as it is not a newly developed business and has been operating in the market since a while. However, PGP may incur high costs to carry out this analysis and may also be very time consuming.

PGP wants to operate efficiently within a dynamic environment which may be facilitated by the PESTEL analysis helping PGP to analyse the new market of renewable energy in all aspects. The political element of PESTEL will help PGP analyse whether the government's increased taxes on non renewable fossil fuels will actually make renewable energy sources more competitive. Similarly, the economic aspect can facilitate in understanding if further falls in world price of oil would make renewable energy sources uneconomic.

The financial aspect of the decision of the decision however can be done using the decision tree analysis where different options for growth could be weighed up using their EMV's and then deciding which option to go for. According to that, the Ansoff matrix and investment appraisals can then be used by PGP to choose its source of finance which may be selling shares to more shareholders on the stock exchange and using the shareholder capital injections in the business.

However, the final decision can be based on a combination of all the positive analysis from the strategies used. PGP should also use strategies which worked previously and generated profits such as still operating as a large oil and gas business and adding on renewable energy as an extension of its portfolio and entirely quitting previous way of operations.