Mock Exam 3

BUSINESS **9609**

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

MARK SCHEME

Maximum Mark: 40

Published

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Paper 4 - NFP

Q1 - Evaluate NFP's strategy for growth between 2016 and 2020. (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 NFP in a number of ways between 2016 and 2020.

Being a co-operative business till 2015, NFP horizontally integrated its operations by opening up a butter and cheese processing factory which used milk from Nelson's herd. This enabled NFP to have greater control over the quality of its products and also expand its customer base leading to higher profits.

External expansion was carried out as part of NFP's strategy, which included turning into a public limited company in 2016. This would have allowed NFP to raise capital more easily to fund any further expansion. However, as a result, Nelson's sons lost ownership of their business and it was handed over to Sian (as mentioned in appendix 1). Sian wanted to expand the product portfolio by adding desserts to the menu. This strategy of new product development required sufficient amount of investment as well as research to identify the customer tastes and preferences, for it to be successful.

In 2017, NFP closed down its original dairy farm in order to increase profitability by being able to get cheaper milk from the wholesale market. As shown in appendix2, this outsourcing strategy helped save Rs4/litre, which hence contributed to rising profit margins. What may have proved as a disadvantage to this decision could be the possible unemployment it created for the 20 people working in that farm, bringing in bad reputation for the business. It can also not be assumed that NFP provided those workers employment in its factory, due to them being unskilled and not being suitable for the job. Moreover, there was a loss of customers who trusted milk supply from the NFP farm who may shift to competitors if the same quality is not maintained with the outsourced milk.

A takeover of VF was carried out in 2019, as an attempt to increase overall capacity by increasing the scale of operations. This was beneficial as it led to lower per unit costs for NFP due to benefitting from economies of scale and also helped eliminate a potential competitor from the market contributing to increasing market share in the industry.

Although, NFP purchased the factory at 50% lower price, it cannot guarantee profitability if the capacity utilization rate is very low. This can be when there is not enough demand to utilize the resources now available leading to however diseconomies of scale. The new factory is seen as an opportunity to develop new products (as mentioned in appendix 3). However, any new product ranges require new machinery installations, which come with a hefty cost, so the decision to purchase a cheaper factory was not very cost effective as additional capital would still be required. Not to mention, the inefficiencies which would have resulted due to the clash of cultures in both the firms leading to employee conflicts and poor motivation levels.

In 2020, NFP faced a crisis over a case of food poisoning (appendix 4), ruining company reputation in the market and decreased market share due to losing out on customers. Sian blamed the milk contamination on the outsourced milk which may be true, but isn't for the customer concern as they look up to NFP as a brand not who their suppliers are. This wouldn't have been persuasive enough for the consumers, if NFP didn't offer compensations to all customers affected and ensured them that they installed a quality assurance system for the future. However, both these recovery actions would have cost NFP a large amount of capital, which they financed through bank loans or further selling their shares. This decision would have depended not only on its gearing ratio but overall financial health as well.

However, as an overall strategy including changing the company structure and external growth, NFP grew in size and scale but this cannot be an indication of higher profits. Any assumptions on the overall success of the business can be made when there is some degree of financial data available to identify its position towards the end of 2020. This can be especially important since it faced the crisis in the same year. Hence, there is a need for exact figures of profit or losses; before and after the incident, to draft any conclusions on the overall growth of NFP.

Q2-Advise Sian on which approaches she should use to develop a new business strategy for the frozen food industry. (20)

The purpose of business strategy is it helps in planning out the plan of action of a business which will then enable it to achieve its objectives. This can be done after a critical analysis of the business is carried out where the current business situation is analyzed which will help devise a plan for the future.

NFP's strategy for the future involves widening its product range to develop into a more diversified processed food supplier. For this, it could use the Ansoff matrix to analyse market conditions for new product development. However, managers of NFP should have a relatively good understanding of the market and their customers' buying process so that they feel confident that their offer will be successful despite the high rate of failure of competitors.

NFP aims to develop core competencies for which it could use the core competencies model and develop its high priced frozen foods using it highly established brand image, which will allow them to attract more customers. This can help cover up for the falling demand from fresh milk and NFP can analyse the market to see whether they could develop frozen foods as its core competency. However doing so may require experienced professionals which may be costly to hire and also the whole process can be very time taking.

The aim of competitor analysis can be facilitated by Porter's five forces model which analyses competitive rivalry for a business in a market. NFP could see which of its competitors has developed its frozen food range and how successfully it is running. NFP can even go for blue ocean planning which will not only aid in product differentiation of the frozen food range for NFP but also help lower competitive rivalry as uncontested market space is sought for.

NFP aims to operate efficiently within a dynamic environment which can be facilitated by the PESTEL analysis where NFP can see the external environment and predict any changes it may need to make to its business in the future. Since it is now willing to expand into a new market or differentiate its products it needs to make sure the external environment, political environment and other factors in favour of the decision.

The aim of choosing appropriate finance can be achieved using investment appraisal and decision tree analysis where the EMV's of both frozen food and fresh milk could be calculated and compared. NFP could then choose whether it should expand its product portfolio or just keep doing what it does best i.e. keep expanding into the market of fresh milk.

However, the final decision can be based on a combination of all the positive analysis from the strategies used. NFP should also use strategies which worked previously and generated profits such as still operating as a fresh milk business and adding on frozen foods as an extension of its portfolio and entirely quitting previous way of operations.