



Rewarding Learning

ADVANCED
General Certificate of Education
2025

Centre Number

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Candidate Number

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Business Studies

Assessment Unit A2 1

assessing

Strategic Decision Making



[ABU11]

ABU11

TUESDAY 20 MAY, MORNING

TIME

2 hours.

INSTRUCTIONS TO CANDIDATES

Write your Centre Number and Candidate Number in the spaces provided at the top of this page.

You must answer the questions in the spaces provided. Answer all questions.

Do not write outside the boxed area on each page or on blank pages.

Complete in black ink only. **Do not write with a gel pen.**

INFORMATION FOR CANDIDATES

The total mark for this paper is 90.

Quality of written communication will be assessed in Questions **2, 3, 4** and **5**.

Quantitative skills will be assessed in Questions **1(a)** and **4**.

Figures in brackets printed down the right-hand side of pages indicate the marks awarded to each question or part question.

Any workings should be clearly shown since marks may be awarded for partially correct solutions. You may use a calculator.

This paper is accompanied by a Case Study Booklet.

ADVICE TO CANDIDATES

You are advised to take account of the marks for each part question in allocating the available examination time.

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Study the information in the case study and answer all the questions that follow.

- 1 (a) (i) Using the data in **Table 1** below, calculate the Net Present Value (NPV) for self-service checkout Model **B**.
 (Show your workings clearly in the table, to the nearest £.) [3]

Table 1

Self-service checkout Model B	Annual net cashflows (£)	10% discount factor	Present value (£)
Year 1	250,000	0.9091	227,275
Year 2	250,000	0.8264	206,600
Year 3	300,000	0.7513	225,390
Year 4	300,000	0.6830	
Total present value			
Initial cost			(800,000)
Net Present Value			

- (ii) Given that the NPV of self-service checkout Model **A** is £9,650, state which self-service checkout Model (**A** or **B**) the board of directors should invest in.

Answer: Model _____ [1]





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For Examiner's use only	
Question Number	Marks
1(a)	
1(b)	
2	
3	
4	
5	

Total Marks	
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Examiner Number

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TUESDAY 20 MAY, MORNING

CASE STUDY
BOOKLET

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Read the following information and answer Questions 1 to 5 in the question and answer booklet.

MSM Plc (MSM)

MSM Plc, founded in 1934, is a renowned British retailer selling food, clothing and home products. The company also provides a range of financial services including credit cards, savings accounts and insurance policies.

The board of directors of MSM consider one of their long-term business objectives to be improving the company’s corporate image. The company prides itself on excellent standards of customer service. The company’s board of directors have implemented strict quality control policies and procedures to ensure the highest standards of food production in relation to the food products sold. However, a customer reported finding an insect in a salad sandwich purchased at one of the company’s stores in London, and the board of directors were also forced to undertake a product recall in relation to jars of mayonnaise due to evidence of product tampering. To enhance the company’s image among customers, the management team immediately issued refunds to the customers along with complimentary store vouchers, withdrew the two product lines from sale and issued a safety alert on its website. These quality control policies and the cost of rectifying the errors increased MSM’s costs.

The board of directors are considering either rebranding the existing product range or introducing a vegan product range. As part of the business planning process, the board of directors employ the use of decision trees, facilitating a structured approach to decision making. Vegans do not eat foods that come from animals, including dairy products and eggs. This gap in the market represents an opportunity to meet the needs of new customers and increase sales revenue. However, the directors cannot forecast the expected values with complete accuracy.

Fig. 1 below shows a decision tree in respect of the proposed introduction of the Vegan product range.

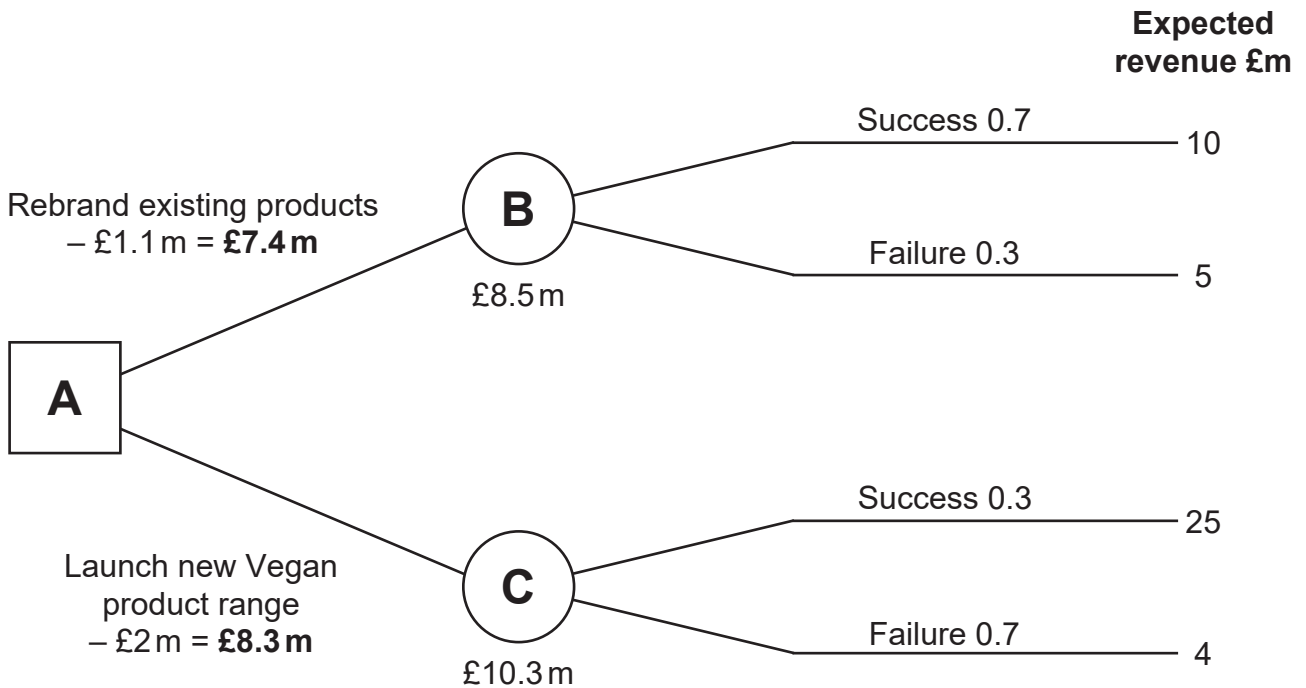


Fig. 1: Decision tree on launching new Vegan product range

In the six-month period to September 2024, MSM reported that profits had risen to £360.2m from £205.5m in 2023, and it was clear that food items were considered more profitable than other products sold by the company. The company's website indicates that it has a network of over 203 stores throughout the UK. However, another of the company's business objectives is to increase profitability (and possibly dividends) for the benefit of shareholders; as a result, the directors recently announced that the company was closing two stores, in Belfast and Aberdeen.

Customers complained on social media about the decision to close stores, suggesting that customer care was not a company priority for the directors. Customers also stated that the decision had reduced choice (as MSM products are no longer available in some city centre locations), and increased inconvenience (as the nearest MSM store may be located a considerable distance away). MSM is aware of the potential conflict between its directors and customers. The directors announced that the company's products are available online 24/7 for customers to purchase.

To deal with the conflict associated with the decision to close the two stores, the directors have implemented the following strategies:

- Improved communications – through the use of a customer helpline to assist with queries and complaints. Staff can offer advice to customers.
- Ignore the problem and force a solution – the closure would proceed; however, the directors are hoping to retain customer loyalty by offering alternative services such as a mobile phone app, free delivery or a loyalty card scheme.

The board of directors have prepared a detailed SWOT analysis which will enable the company to identify its internal and external position, and achieve its business objectives in the future. Part of this SWOT analysis suggests that the business operations must be more sustainable in the future, which includes:

1. Reducing the number of stores in the network to below 180 by 2028.
2. Reducing food waste by 50% in the next two years.
3. By 2026, at least a third of all MSM's clothing and home product ranges will be produced with 25% of content coming from recycled materials.

The board of directors have acknowledged that some parts of the SWOT analysis are based on financial estimates. Such estimates may not be 100% accurate – for example, forecasted sales revenues are expected to rise, based on the numbers of customers who use the company's website to complete their weekly shopping. Indeed, the directors are aiming to increase half-yearly profits beyond the £360.2m reported during 2024. Achieving the business targets will also need the support of all staff employed by the company, and this is acknowledged by the board of directors.

The SWOT analysis has made the company's directors aware that they need to invest in new technology to improve business operations and respond to the highly competitive environment. The increased use of self-service checkout equipment, with contactless payment options, facilitates an enhanced customer experience. Customers can complete their checkout experience quicker and can monitor their spending as they shop, scan and pay, as this helps with budgeting and managing family finances. Two self-service checkout models are available – Model A and Model B. However, the board of directors are aware that the SWOT analysis needs to be regularly updated, due to the ever-changing external environment.

The board of directors have been advised by their accountant of the reasons for the appraisal of company investment projects. These include the correct selection of the appraisal method (Net Present Value (NPV)), and the need to establish factors for effective decision making – e.g. the lifespan of the equipment and forecasted cashflow. The use of investment appraisal techniques can allow the board of directors to make a better decision.

Table 1 (below) summarises the data for the self-service checkout Model B:

Table 1: Model B data

Self-service checkout Model B	Annual net cashflows (£)	10% discount factor
Initial outlay	(800,000)	
Year 1	250,000	0.9091
Year 2	250,000	0.8264
Year 3	300,000	0.7513
Year 4	300,000	0.6830

The accountant has determined that self-service checkout Model A yields a positive NPV of £9,650. The NPV for self-service checkout Model B has yet to be computed. The board of directors of MSM are convinced that investment in the new equipment will help the business achieve its objectives.

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