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# Answers

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**1 To: The board of Freuchie Retail (Freuchie)**  
**From: An Accountant**  
**Date: September 20X5**  
**Subject: Performance reporting and management issues at Freuchie**

This report evaluates both the quantitative and narrative aspects of the current performance report used by the board for strategic review. Next, the meaning and calculation of operational gearing are discussed for Freuchie as are the implications of the results. Finally, the quote 'What gets measured, gets done' is discussed, along with certain other pieces of jargon with illustrations from the situation at Freuchie.

**(i) Current performance reporting: quantitative**

The current report has a number of strengths and weaknesses. These will be discussed according to whether the report:

- addresses the objectives of the business;
- contains appropriate information for decision-making; and
- is well-presented.

The mission of Freuchie can be broken down into a main aim with supporting strategies. The primary aim is to deliver returns to shareholders above the average for the retail sector. This is to be achieved by:

- providing a superior customer experience which in turn is done by:
  - o the appearance of the stores;
  - o the attractive range of clothes; and
  - o selling with enthusiasm.

The report, as it stands, is designed from a traditional set of management accounts and is dominated by internally-generated, financial information. It is clearly not suitable to measure the achievement of the business' objectives.

1. The primary aim is not fully measured. The return to shareholders is partly measured by dividend payments but there is no measure of share value to allow for total shareholder return to be visible. It is not compared as required to the retail sector average and this reflects a lack of external information in the report.
2. The achievement of the supporting strategies is done through the customer experience although there is no measure of this in the report. Indirectly, revenue growth would provide an indicator. However, this indicator is currently unsatisfactory as it has not been adjusted for the increased number of stores, which increases sales without any change in the customer's experience of a store.
3. The superior customer experience should be measured through the three ways in which this is to be achieved:
  - (a) Appearance of the stores is difficult to judge through financial indicators although, possibly, spending on fixtures and fittings and cleaning may give some indication. (These are not provided in the current report.) An assessment by an external expert comparing Freuchie with competitors may be required to give an indication, although this is likely to suffer from its subjective nature.
  - (b) The range of clothes is not measured in the report. This should include the number of product lines which achieve certain gross margin or revenue targets (so measuring their attractiveness). Alternatively, fashion awards won might indicate the attractiveness although the proliferation of industry awards means that a comparison to competitors rather than the absolute figure would be needed.
  - (c) Selling with enthusiasm is measured in the current report by revenue growth although, as already noted, this must be adjusted for the change in store numbers. The enthusiasm of the sales staff could be measured by the proportion who are paid a bonus for exceeding their target.

**Other points in meeting best practice in reporting:**

1. At present, the report only reports on absolute sales and does not reflect the purchase of new stores. This distorts performance as it is unclear if the growth is organic or from these acquisitions. Revenue and operating profits per store or a categorisation of performance into existing and new stores would help to clarify this.
2. There is no mention in the current report of the capital which is being used by the business. As a result, it is not possible to give any comment on the return which investors are getting per \$ invested. The use of return on capital employed would address this.
3. The current presentation of a detailed list of costs will tend to obscure important information and those headings which remain should relate to the main objectives. Therefore, it is recommended that all cost information not directly related to the achievement of objectives is removed from the report although there may be need from time to time to provide such information on an exception basis (such as if inventory losses became material in explaining performance).
4. The report provides both budget and actual figures but does not show variances. This presentation is useful for a detailed control of costs. However, it may be too detailed for consideration of strategic performance which should focus on performance against external measures such as competitor performance.

5. The report only shows the current year and previous year allowing a simple comparison. The board might want to consider if longer historic trends are of value, especially in a fashion business.
6. In terms of presentation, the initial table of data is clear and in a form which would be easily recognisable to those used to reading accounts. However, much of this information is not necessary in forming a view about the achievement of the mission, being too detailed or not directly relevant, and so the report overloads the board with internal information but lacks the necessary information on the external environment.

The section on other data in the report could be easily ignored as it appears to be a mere attachment to the main table of accounting data. It does get mentioned in the commentary (dividends). However, lacking structure or a necessary priority order, the importance of the points might be easily missed. For example, number of employees is placed first, while dividends paid is third in the list.

## (ii) Current performance reporting: narrative

The current commentary in the report does not justify its conclusion on whether the business is achieving its mission. The actual measure of the primary objective is insufficient, as already noted. It shows the dividend but not total return to shareholders and does not show a return on their capital. The subsidiary strategies are only indirectly mentioned through revenue growth, which relates to enthusiasm of selling. There is no statement on shop appearance, the range of clothes or attractiveness of the clothes. The gross margin should probably be stated to three significant figures which would show a slight fall year-on-year from 40·8% to 40·6%. The final comment on inventory write-downs appears unnecessary as it is neither key to the mission nor material in its impact or year-on-year change.

### Suggested improved commentary:

- Overall performance is satisfactory as the business has maintained its dividend and improved its profits although these remain marginal at 0·2% of revenue.
- Revenue is up by 10·5% on the previous period which reflects the purchase of new stores. Revenue per store is static at \$15·2m reflecting an unchanged customer experience in the stores.
- The clothing range had X% of lines achieving their gross margin targets.
- The enthusiasm of the sales force was illustrated by X% receiving a bonus for exceeding their target.

[**Tutorial note:** *There are many acceptable possibilities in the suggested commentary. For example, the first point here uses existing data but others might discuss percentage total shareholder return against the sector average.*]

## (iii) Operational gearing and cost structures

Operational gearing measures the business risk relating to how fluctuations in sales volume might lead to falling profits as fixed costs are not covered. The higher the ratio, the greater the risk. It can be defined as contribution/operating profit where contribution is revenue less variable costs. If the contribution is large but operating profit is low (as with Freuchie), then the fixed costs are only being marginally covered and a small loss of revenue could lead to losses (as happened in 20X4). It is difficult to measure precisely as most costs have both fixed and variable elements. The measure here has classified each cost into one or the other category based on their general expected behaviour.

### Calculation:

	Budget 20X5 \$m	Actual 20X5 \$m	Actual 20X4 \$m
Revenue	641·0	638·1	577·7
Cost of sales	380·5	378·9	342·1
Adjusted for:			
Other fixed costs noted	47·2	47·1	42·3
Variable element of staff costs	6·4	6·4	5·8
Contribution	301·3	299·9	272·1
Operational gearing (%) = contribution/PBIT	40·7	44·8	85·0

In these calculations, other fixed costs noted include rent and property costs, marketing, head office costs, insurance, utilities and depreciation; although all do change with the number of stores, they are not likely to change with changes in revenue per store. Staff costs seem to be mostly fixed but the variable bonus element has been calculated and adjusted for.

The results reflect the high fixed costs of Freuchie where, as can be seen by comparing this year and last year, a 10·5% change in revenue moved the business from overall loss to profit and more than doubled operating profit. Freuchie can be seen as a risky business with volatile results as a consequence.

[**Tutorial note:** *There are a number of possible acceptable definitions of operational gearing and these are given credit.*]

## (iv) 'What gets measured, gets done'

The idea behind the quote, 'What gets measured, gets done', is that the staff will only react to the performance measures reported on. In other words, poor performance reporting can lead to inefficient management. If an area is not measured,

then there is a danger that it is not efficiently managed and equally, if an area is measured, then there is the danger that it is over-managed. For example, the presence of inventory losses on the report might lead to a restriction in the clothing range in order to control this and so be to the detriment of the aim to have an attractive and wide range.

Tunnel vision is present within the quote as it refers to an undue attention on the aspects of performance which are measured and a consequent lack of resources being applied to unmeasured areas. The focus on revenue and dividend payment in the commentary may lead to a lack of attention to profit margins.

Sub-optimisation can be present within the quote as a criticism since if the areas measured are not optimally chosen, then if performance is only driven by the measured factors, the outcome will not be the best possible for the business. As commented above, there is a lack of measure of capital employed at Freuchie and this might be driving the growth by acquisition of stores without addressing the individual profitability per store.

Myopia does not necessarily follow from the quote although it is a common problem in organisations which fixate on their chosen set of measures. This would occur if the measures chosen are only for the short-term performance of the organisation and so management will ignore the long-term aspects. Thus, myopia is a special case of sub-optimisation.

Gaming does not necessarily follow from the quote as gaming is the deliberate distortion of performance in order to achieve the rewarded goals. This implies that what is being measured is not being done, merely being reported that it is done.

The quote may not be entirely applicable as management may still take action out of other motivations such as the results from training or personal motivation to demonstrate their own skills. However, the quote is intended to bring into focus the fact that many people will tend to focus effort on the explicit measures of their performance.

## 2 (a) Strategy formulation

Business ethics relates to behaviour expected by society, but not codified in law. Developing strategies which demonstrate high standards of ethical behaviour, for example, towards the environment, will help create long-term, sustainable competitive advantage. This is because stakeholders may react negatively to poor ethical behaviour.

For example, Sgoltaire's biggest shareholder only invests in ethical companies. This stakeholder has high power and interest and will strongly influence strategy formulation to ensure that this is consistent with its own principles and objectives. Ultimately, the pension fund could sell all of its shares, which may reduce Sgoltaire's performance by making it harder to raise finance. The creation of long-term, sustainable economic competitive advantage is consistent with Sgoltaire's main objective, which is to maximise the long-term wealth of its shareholders.

Apart from the business and economic consequences of the investment in Kayland, ethical issues need to be considered. Although Kayland's environmental regulations allow the discharge of diluted WPA into rivers, it would clearly be unethical to take action which could harm human health in the long term. Significantly, the discharge of WPA into rivers is not permitted in Jayland.

The use of scarce river water to dilute WPA, in order to conform to Kayland's limited environmental regulations, is also an ethical issue. Using scarce water in such a way may cause harm to the local population and their livestock.

The board has not yet estimated the costs of cleaning up the proposed site at Kayland once production ceases. This could be a deliberate strategy as the board could think this is unnecessary due to the less strict environmental regulations there. Leaving the site contaminated with harmful chemicals, after decommissioning the plant, could affect the company's reputation in the long term and is unethical.

Conversely, the board does have a duty to develop strategies which benefit internal stakeholders such as shareholders and employees. For example, incurring costs to find safe ways of disposing of WPA, which could eventually turn out to be harmless, could reduce long-term shareholder wealth. Also, while many employees may want to work for a business with ethical strategies, the financial costs of these may reduce their job security by making the business less profitable.

### Business performance

Poor ethical behaviour can have a big impact on Sgoltaire's reputation, leading to customers boycotting its products and a reduction in financial performance. For the proposed project in Kayland, Sgoltaire's reputation could be damaged in the short term if it were found to be paying local workers unacceptably low wages.

A strategic decision to discharge WPA into rivers or not clean up the site could increase the interest of environmental campaigners, who may join forces with other stakeholder groups such as consumers and the government in order to increase their power. This will increase any possible damage to Sgoltaire's reputation. Managing these groups will incur cost and management time and possibly risk fines and penalties for poor environmental performance. These costs could, in the long term, exceed the costs of disposing of WPA in an environmentally safe manner. The use of water, which is a scarce resource, could also increase the interest of environmental campaigners.

Poor ethical behaviour could also reduce long-term financial performance, if people were to become ill as a result of contact with WPA; as well as the impact on reputation, there could be fines and lawsuits, the value of which is hard to quantify. Formulating an alternative strategy for the safe disposal of WPA may therefore be beneficial to long-term performance, even if there were a short-term cost to this.

Behaving ethically can have a positive effect on business performance, for example, by creating brand loyalty.

This already appears to be the case, as Sgoltaire is a well-known and trusted brand. Its household detergents and cleaning products command premium prices because they use ingredients and processes which cause less harm to the environment than those of competitors.

The publication of the annual CSR report will communicate how ethically Sgoltaire behaves towards a wide range of interested stakeholders. The stakeholders who value ethical behaviour will react positively to ethical behaviour by Sgoltaire. Customers may choose to buy its products, or investors to buy its shares because of this.

- (b) Environmental management accounting (EMA) relates to the production and analysis of financial and non-financial information to help a business identify environment-related costs and manage its performance in respect of the environment.

#### **Calculating costs**

As Sgoltaire is listed in Jayland, it must produce an annual CSR report which demonstrates its performance in environmental and other social and ethical matters. The company will need to measure environment-related costs to compile this. The sophistication of the company's information systems is unclear, but traditional information systems do not capture environment-related costs, such as the costs to dispose of WPA, which may be hidden in overheads.

EMA helps to capture these hidden costs as well as contingent costs, for example, in cleaning up contaminated sites after production ceases. Of all the environment-related costs, the reputation and relationship costs which may occur, for example, if discharged WPA harms the health of large numbers of people, may be the largest cost.

By the use of techniques such as environmental activity-based costing, input/output analysis and lifecycle costing, EMA can be used to develop a clearer understanding of costs, particularly environment-related costs, meaning that budgets will be more realistic. This will make them more useful for planning purposes. Managers appraised using these budgets, which could include budgets specifically relating to environment-related costs, would be more motivated to achieve any targets set.

Sgoltaire may have to invest in more sophisticated information systems in order to capture environment-related costs which are currently hidden within overheads. The cost of this needs to be compared against the benefits of doing so.

#### **Investment appraisal**

EMA helps to ensure that all environment-related costs are included in an investment appraisal. For example, the board's calculations of NPV of the proposal to manufacture Chemical K in either Jayland or Kayland did not include estimates for the present values of decommissioning the plant or of cleaning the sites when production ceases.

If investment appraisals do not include all relevant costs such as these, business performance may decrease as Sgoltaire may start to manufacture products which will have a low, or even negative, NPV which will not generate long-term shareholder wealth.

If the project were to take place in Jayland, these costs would reduce the NPV of the project by 40% (W1), which is a large amount. The board has not estimated the present value of the costs to clean up the site in Kayland. As a result of logistical difficulties due to Kayland being 8,000km from Jayland, decommissioning costs would be 50% higher than in Jayland and so for the same reason, clean-up costs in Kayland might also cost 50% more.

On this assumption, the NPVs of both alternatives would be \$120m. The board would probably choose to manufacture in Jayland, as there are lower risks by operating in the home country. If the environment-related costs of decommissioning and clean up were not taken into account, the board may have chosen to undertake the project in Kayland because the NPV of the project was \$40m (\$240 – \$200) more than in Jayland.

#### **Setting performance measures and targets**

EMA can be used to set targets for improving performance in respect of the environment, for example, by reducing environment-related costs, fines or taxes. This is important as Sgoltaire publishes an annual CSR report, so its environmental performance is clear to a range of stakeholders, many of whom have an interest in environmental matters.

Performance targets could be financial or non-financial, for example, physical quantities. If the production of Chemical K were to commence in Kayland, a non-financial target could be the volume of water taken from the local river. This is because water is a scarce resource in Kayland and taking too much of it may have a harmful effect on the local environment, the human population, and their livestock.

Environmental performance measures could be internal or external. Targets could relate to both short-term and long-term performance. The number of cases of ill health due to contact with WPA is an external measure relating to long-term performance.

#### **Product pricing**

Using EMA to develop a clearer understanding of costs also helps Sgoltaire in setting a price for Chemical K. EMA will help Sgoltaire to understand all of the costs in the product's lifecycle and what drives them. These will include environment-related costs which are incurred before or after production begins or after it ends, such as decommissioning or clean-up costs. Sgoltaire can price the product to ensure that all of these costs are covered. This should ensure that the company can make an acceptable profit on the sale of the product over its lifecycle and can choose not to make products which are likely make losses. This will improve long-term financial performance.

Environment-related costs occurring after production ceases may be incurred in many years' time. Predicting these costs will be difficult and may be significantly affected by inflation, changes in the cost of capital and the possible introduction of stricter environmental regulations in the future.

By demonstrating that production of Chemical K is made in such a way as to minimise harm to the environment, Sgoltaire may be able to charge a premium price to customers to whom this is important. Though the use of Chemical K is unclear, many of its household products already command premium prices for this reason.

### Working 1

#### NPV of the two proposals after including decommissioning and clean-up costs

	Jayland \$m	Kayland \$m
NPV of project estimated by the board	200	240
Decommissioning cost	(20)	(30)
Cleaning cost	(60)	(90)*
NPV after decommissioning and cleaning	<u>120</u>	<u>120</u>
Decommissioning and cleaning costs as a % of the estimated NPV (80/200:120/240)	40%	50%

\*Cleaning costs of Kayland estimated at 50% higher than in Jayland.

- 3 (a) Business process re-engineering (BPR) involves rethinking how a process is undertaken at a fundamental level and is based on the radical redesign of business processes to achieve dramatic improvements. It starts by asking questions such as: 'why do we do things this way?' and 'would we do things exactly the same way if we were starting again?'

Pattack has an overall aim supported by several strategies. The main aim is to maximise shareholder value and this will be achieved through having a strategic focus on costs, by being the best delivery company in Geeland, by being innovative in its approach and by having an engaged and committed workforce. It is likely that all these goals can be better achieved by the BPR proposal.

#### Strategic focus on costs

There are several areas in the new proposal where costs will be saved over the long term. Upon collection by Pattack drivers, the parcels will not now require to be taken to Pattack's premises to enable the delivery schedules to be planned by delivery administration. Instead, the deliveries will be planned through the electronic transfer of data from the retailers. This will save costs in two main areas. First, the drivers are not required to return to Pattack's premises which will save the costs of the drivers' time, vehicle fuel and associated vehicles costs. Second, the same drivers who collect the parcels from the distributors will deliver the parcels to the end users. This will save cost as there is no need to employ two different types of driver for two different purposes. The process has merged the collection and delivery functions and therefore there is only a requirement for one type of driver.

There will also be a cost saving as the date and time of delivery to the end user is now undertaken automatically and accurately. The current process is not accurate and has been a source of complaints from the retailers. The current process is likely to damage Pattack's relationship with the retailers and Pattack is likely to lose business in an increasingly competitive environment. Introducing a system whereby the end user has to sign for receipt of the parcel, along with the date and time of the confirmed receipt, will save Pattack the costs associated with recording the data when the drivers return to Pattack's premises. It will also save the cost of the damage to Pattack's relationship with the retailer and may help ensure future business.

The fundamental idea of a strategic focus on costs is that cost savings are considered over the long term. The bar coding technology and the hand held devices used by the drivers would certainly represent an expense in the short term. However, it is clear that the benefits in terms of process improvement represent a permanent change to Pattack's processes. From the evidence in the scenario, it is very likely that such process improvement will result in significant cost savings in the long term.

#### Being best delivery company

The redesign of the process to tag the parcel at source will also help Pattack achieve its aim of being the best delivery company in Geeland as it will enable route planning to be undertaken on a more pro-active basis. Routes can now be planned as orders are communicated from retailers instead of waiting until all parcels have been brought back to Pattack's premises. This is likely to enhance retailer satisfaction with the service Pattack is offering.

Electronic vehicle tagging will enable the delivery manager to respond to any requests from the retailers concerning delivery. Pattack can thereby demonstrate that it is reacting to retailer demands for real time information regarding delivery and can show that it is putting the overall retailer experience at the centre of its process redesign.

The receipt by the end user, combined with the original bar coding of the order, would enable a digital audit of every order Pattack received to be undertaken in the event of any subsequent problem the retailer may have with the end user. This would enhance retailers' trust in Pattack and their overall satisfaction with the service Pattack is providing.

#### Innovation

Pattack makes clear in its strategic goals that it will be innovative in its approach. The current process appears outdated, time consuming and ineffective as it appears to be hindering Pattack in the achievement of its overall aim.

Adopting the BPR proposal would certainly evidence Pattack's aim of being innovative in its approach. More importantly, however, the innovation would lead to tangible, and perhaps financially measurable, process improvement. For innovation to be meaningful, it has to be of measurable benefit to Pattack.

### **Engaged and committed workforce**

Much of the work currently undertaken by the computer operators will now be addressed by the bar-coding operation. It is not clear, however, if there is a new position for these staff members within the new process. Likewise, there is no need now for both collection and delivery drivers and it has to be assumed that Pattack will require fewer drivers overall. The main purpose of the BPR proposal is to make Pattack's operations more efficient and it is clear that long-term cost reduction is part of that. It is inevitable that this will include employees as some of the tasks they perform are replaced by enhanced technology. There would clearly be an effect on staff morale if some workers were made redundant and this may lead to the workforce feeling under threat rather than committed or engaged.

There are some elements of the BPR proposal, however, which are likely to enhance employee engagement and commitment. The remaining drivers, for example, should have schedules which are better planned and more efficient than the current ones, which should enhance their trust and faith both in the organisation generally and in the redesigned processes which has been initiated specifically. The delivery manager should also feel that he or she has more control over the entire process if he or she is able to see where delivery vehicles are at any given moment.

### **Maximisation of shareholder value**

It is not clear from the scenario if Pattack has undertaken or will undertake a net present value calculation for the BPR proposal. This would allow Pattack to make a more objective judgement as to whether the proposal is adding to shareholder value.

However, Pattack's aim is to maximise shareholder value by undertaking the strategies outlined above. It is very unlikely that the BPR proposal will enhance strategic performance in all those areas and not contribute to the maximisation of shareholder value. Overall, therefore, it is extremely likely that the BPR proposal will help with Pattack's aim of maximising shareholder value.

## **(b) Drivers' bonus**

The retailers are Pattack's customers as it is the retailers who employ Pattack to deliver the parcels on their behalf. The end user is the retailer's customer, not Pattack's, so it is appropriate to measure satisfaction of the retailer.

### **Clarity**

The measurement of satisfaction has to be clearly defined. Pattack may choose to measure this by a survey of the retailers but would need to be clear with regard to the questions asked and, in particular, the options offered in terms of potential responses. Surveys are well-known, for example, for respondents choosing middle values on a scale of one to five. There may also be a lack of shared understanding around the word satisfaction and perhaps measuring customer delight, happiness or something more tangible such as the possibility of the retailer using Pattack for its next delivery may be more meaningful.

It should also be clear as to when a bonus will be awarded and whether there is a scale to it. For example, it should be made clear to the drivers that a basic bonus will be awarded when overall customer satisfaction reaches the specific detailed figure of 85% and if the bonus will increase if this satisfaction level reaches 90% or 100%. As it currently stands, the bonus scheme does not identify these levels.

### **Controllability**

There are some factors which are in control of the drivers in their interaction with the retailers and, in that sense, the measure can be seen as a fair one. For example, they are in control of how they personally interact with the retailers when they collect the parcels and as such are in control of how Pattack is represented in this part of the relationship. They are also in control of the physical condition of the parcels and should be able to assure the retailers that the parcels will be delivered in the same condition that they were collected.

The other area of most concern to the retailer will be whether the goods are delivered on time and this is only partly in the drivers' control. They cannot control the conditions on the roads and there may be accidents, traffic jams, adverse weather conditions and problems with access to end user premises for certain types of vehicle which could affect delivery. If deliveries are late, the end users are likely to complain to the retailers and, as a result, the retailers' satisfaction with Pattack could potentially be affected adversely. Such an eventuality may mean that the drivers are not awarded their bonus on the basis of factors beyond their control.

The drivers are also not in control of the entire relationship with the retailer. The retailer's view of satisfaction will be influenced by all their dealings with Pattack, which will also cover such things as the ordering process, invoicing and customer relations with Pattack's office staff. These factors may adversely affect the retailers' view of their satisfaction with Pattack and are out of the drivers' control.

It seems unfair, therefore, to award the drivers a bonus based on these significant factors which are out of their control.

### **Motivation**

Motivation to achieve a bonus is usually related to how clear it is and how achievable it is deemed to be. As neither the potential scale of the bonus nor the monetary reward attached to it is clear, and it appears to contain several aspects which are beyond the control of the drivers, it is unlikely that they will be motivated to achieve it as it is currently presented.

There is a danger with this bonus system that the drivers focus on this measure to the exclusion of other factors. For example, the need to deliver parcels on time as part of ensuring the retailers' satisfaction may cause the drivers to break speeding laws or to take more chances than they would normally when driving.

**Conclusion**

As a starting point, the idea of basing drivers' bonus based on retailer satisfaction does sound appropriate, but the proposed bonus could be further clarified and should also be better defined to relate to the specific elements which are in the drivers' control. As it stands, the scheme is too general and should not be adopted.



- 1**
- (i)** 1 mark per point – must be based on scenario information  
Aim of performance report – 1 mark  
Breaking down mission – up to 3 marks  
e.g. Identify priority of objectives, pick out strategies, comment on their connections  
Assessment of whether report meets mission – up to 12 marks  
e.g. Clear statement of inadequacy for mission, addressing each of the elements of the mission, information for relevant decision-making by board  
Other points – up to 5 marks  
e.g. Answering where growth is coming from (if not already discussed), lack of information on capital (for return on capital for shareholders) and liquidity (given poor profits), data overload, general presentation  
Maximum 18 marks
- (ii)** 1 mark per point – must be based on scenario information  
Comments on existing commentary – up to 5 marks  
e.g. Achieving its mission; whether the three subsidiary strategies are measured, relevance and accuracy of points made  
Proposed new commentary  
1 mark for observing requirement to have a max of four points and placing them in a sensible priority order  
Up to 4 marks – considering each point individually  
Maximum 10 marks
- (iii)** Commentary on the general meaning of operational gearing – up to 3 marks  
Calculations:  
Revenue – variable costs 1  
Variable – excludes other operating costs 1  
Variable – excludes insurance, utilities and depreciation 1  
Handling staff costs correctly 1  
Operational gearing 1  
Commentary on results – up to 2 marks  
Maximum 8 marks
- (iv)** 1 mark per point  
Maximum 10 marks  
Professional presentation – 4 marks  
**Total 50 marks**
- 2**
- (a)** 1 mark per point:  
Impact of ethics on strategy formulation – up to 6 marks  
Impact of ethics on business performance – up to 6 marks  
Maximum 10 marks
- (b)** 1 mark per point:  
Calculating costs – up to 4 marks  
Investment appraisal – up to 4 marks  
Calculations – up to 2 marks  
Setting measures and targets – up to 4 marks  
Product pricing – up to 4 marks  
Maximum 15 marks  
**Total 25 marks**

**3 (a)** Definition of BPR – 1 mark

1 mark per relevant point:

Strategic focus on costs

Being best delivery company

Innovation

Engaged and committed workforce

Maximisation of shareholder value

Maximum 15 marks

**(b)** Identifying Pattack's customer – 1 mark

Bonus scheme – 1 mark per relevant point, up to 9 marks

Conclusion – up to 2 marks

Maximum 10 marks

**Total 25 marks**