

## Tutors' marking guide for Business Strategy &amp; Technology – December 2018

## Business Strategy December 2018 marking grid

	ACTUAL			HEADROOM		
	K	S	Tot	K	S	Tot
<b>Q2 West Water</b>						
<b>2.1 ST Pricing &amp; Five Forces</b>	4	16	20	4	18	22
<b>2.2 Risk mitigation &amp; Environmental pollution technology</b>	3	12	15	3	13	16
<b>Total</b>			<b>35</b>			<b>38</b>

## Marking guidance notes for Business Strategy &amp; Technology - December 2018

<b>Q2 West Water Inc</b>		
<b>2.1 ST Pricing &amp; Five Forces</b>	<p>Understanding deregulation impact on prices (move to competition)</p> <p>Pricing models or frameworks (eg 4Cs; elasticity)</p> <p>Structure of industry – move from regulated to oligopoly</p> <p>Understand Porter's 5 forces model (industry model)</p>	<p><b>Short term pricing</b></p> <ul style="list-style-type: none"> <li>• Relative industry prices (of competitors and WWW) before deregulation.</li> <li>• Homogeneous product</li> <li>• Cost structures of competitors</li> <li>• Switching costs low</li> <li>• Lowest cost provider</li> <li>• Common pricing in industry – price convergence (tacit collusion)</li> <li>• Uncertainty</li> <li>• Use of data in Q</li> </ul> <p><b>Deregulation and 5 Forces</b></p> <ul style="list-style-type: none"> <li>• Consider <b>change in</b> industry competitiveness (not <i>level</i> of competitiveness)</li> <li>• Focus on whole industry – not WW</li> <li>• Regional monopolies lost = competitive rivalry</li> <li>• New entrants (retail not wholesale)</li> <li>• Substitutes (few)</li> <li>• Buyers customers (Switching costs; indiv v collective)</li> <li>• Suppliers (government, wholesalers)</li> </ul>
<b>2.2 Risk mitigation &amp; Environmental pollution tech</b>	<p>Understanding expected values</p> <p>Understanding the nature of the risks (low probability and high impact)</p> <p>Risk mitigation (understanding of risk mitigation choices and risk appetite)</p>	<p><u>Calculations:</u></p> <ul style="list-style-type: none"> <li>• \$9.76m <i>either</i>: <ul style="list-style-type: none"> <li>◦ \$13.36m - \$3.6m; or</li> <li>◦ \$6m + \$3.76m</li> </ul> </li> <li>• 0.04 or divide by 25 years</li> <li>• Expected cost \$390,400</li> <li>• \$1.1m technology costs</li> </ul> <p>Note: other approaches also rewarded</p> <p><u>Discussion</u></p> <p>Arguments favouring technology</p> <ul style="list-style-type: none"> <li>• Financial impact</li> <li>• Reputation damage</li> <li>• Wrong estimates of probabilities</li> <li>• Major v minor estimates</li> <li>• Going concern and other indirect costs</li> <li>• Positive sustainability/environmental reputation</li> <li>• Public interest</li> <li>• Discussion of comparison of calcs</li> </ul> <p>Arguments against technology (accepting risk)</p> <ul style="list-style-type: none"> <li>• Cost (high and certain)</li> <li>• Timing of cost (PV and liquidity)</li> <li>• Unavoidable events even with technology</li> <li>• Alternative mitigation to technology (eg insure)</li> </ul> <p>Use of data in Q Advice</p>