

**NEW**

# AQA Business 2nd Edn

*For first exams 2025*

# TARGET B-A\*

Year 12 & 13



**Ian Marcousé**

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Published by A-Z Business Training Ltd

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Designed and printed by The Wimbledon Print Company, Haydons Road, London SW19 8TY

### **Acknowledgements**

Many thanks to Michael Woolsey and Christopher Lalande for design work and guidance, plus Darren for hard work – plus crucial chats about Fulham and QPR.

I owe a debt for feedback from the staff and students at Central Foundation School for Boys and City Academy, Hackney.

Finally, love and thanks to Maureen plus grandkids Lily, James and Kai. It's paying for flights to Tokyo that keeps me going.

Ian Marcousé, June 2023

**AQA** Business A Level, 2nd Edition

*For first A Level exams 2025*

**TARGET B-A\***

**Year 12 & 13**

**Ian Marcousé**

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# Theories of corporate strategy: Porter's matrix

## Grade C/B. Getting the basics

Michael Porter is famous for his work on competitiveness, especially sustainable, long-term competitiveness. To him, the key spectrum was the horizontal one on the diagram below. The most important strategic decision was whether to aim to be the lowest cost producer or the most highly differentiated one. Both positions were equally strong and equally sustainable over time. The longevity of Ryanair and Mercedes support that view. The vertical axis shows the market sector the business is operating in. The strongest positions, perhaps, are to be the lowest cost producer in a mass market or a highly differentiated one in a niche market.

## Grade B. What is Porter's Matrix?

	Lowest Cost		Highest differentiation
Mass Markets	Ryanair	British Airways	Mercedes
Niche	Dacia cars		Porsche Ferrari

## Grade B/A. Why it matters

It matters because of the problems associated with where British Airways sits on the diagram. To be in the middle means you're neither differentiated nor low cost. You're a 'piggy in the middle'. Neither loved for your differentiation nor loved for your cheap prices. Porter says that this means a constant battle to survive amidst masses of competition – some better placed than you.

## Grade A. The counter-argument

Some theorists disagree with Porter. They believe there is room for a position in which you're giving reasonable quality at a reasonable price. In the real world, though, it's easy to look at Waitrose (differentiated) or Lidl (low cost) and stick with Porter. A piggy in the middle such as Morrisons (or Ford in the car market) has a hard life make sustained profits.

## Grade A\* The critical perspective

Porter's theory is often called the generic strategy matrix. This means it applies in all circumstances and all markets. In truth, that's a big ask. In a complex business world there are bound to be exceptions to any rule. So the theory should be treated as a starting point for analysis, but not the last word in evaluation. That's your job.

**Lowest cost** means what it says. The business that can produce (or serve) at a lower cost per unit than rivals. This allows the business to choose between charging the lowest prices (threatening to put rivals out of business) and enjoying high prices with low costs – and therefore being the most profitable business in the sector.

**Highest differentiation:** with this position a firm can focus on ever-greater design, quality and service because the customer is not very focused on price. They want *that* brand – no substitutes.

**Exam tip:** beware of muddling 'lowest cost' with 'lowest price'. Don't treat them as interchangeable.

## Theories of strategy (ii): constructing logic chains (to the top response level)

**Chain 1.** If your reading of the exam text suggests a business that's stuck in the middle (1)... think hard about the best strategic move (2). Is there enough about efficiency, high productivity or even low wages (3)... to make it possible to become the lowest cost producer (4). If not, then see whether a niche or mass differentiation strategy could be used. Then make a clear choice/recommendation (5).

**Chain 2.** Don't under-estimate the difficulty and cost of changing your market positioning/strategy (1) ...as you'll need to build credibility in your new position (2)... whether lowest cost and therefore price, or highly differentiated (3). Brand images are very hard to shift (4)... especially a move upmarket (5).

# Managing strategic implementation

## Grade C/B. Getting the basics

The Covid-19 pandemic proved that implementation is under-valued and misunderstood. Government ministers announced this policy and that policy (e.g. cancel 2020 A Level exams) with no idea how to turn strategy into practice. Only later on did they realise that strategic decisions mean nothing without careful implementation plans. Every student learns this: it's easy to decide on goals (I'll get an A); the hard part is planning how to do it – then sticking to the plan.

## Grade B. What's the key issue?

The key issue is finding the right organisational structure to manage the implementation. The UK government's response to Covid-19 was to outsource to private sector companies. Businesses are inclined to use one of four different structures: functional, i.e. passing authority down through marketing, finance, H.R. and operations management; product-based; regionally-based and within a matrix structure. Of these alternatives, a matrix structure would be the most democratic and decentralised approach. Outsourcing is the most centralised by far.

## Grade B/A. Why it matters

It matters because success matters. Obviously in the case of track-and-trace and the pandemic, but also when a company opts to implement on a regional basis. It may later find that the decentralisation results in different regions interpreting the policy differently, leading to consumer confusion. Yet that still may prove a better outcome than an over-centralised product-based system with all decision-making kept at the top.

## Grade A. The counter-argument

The counter to this is to question how many businesses are big enough to be choosing between organisational structures. The vast majority of firms employ fewer than 100 staff, so in most cases the overall boss will ask a senior manager to take charge of a project – no matter what the formal structures may (or may not) be. And in firms with fewer than 25 staff, the boss will almost certainly handle the implementation personally.

## Grade A\* The critical perspective

Even in large plcs or multinationals there should be effective organisational structures. Ideally, there should be enough flexibility that a matrix structure could be chosen for a one-off project. But past problems at Tesco, Marks & Spencer and the NHS show that structures can become overly complex, with no clear lines of reporting. Without a clear communication channel to the top of the organisation, implementation can falter – or be a strange combination of dither then panic. Whether it's facemasks or fashion clothing, implementation is a huge challenge.

**Leadership** is critical in strategic implementation. In 2020 research showed that the world's few women prime ministers did better on Covid-19 than the men. The women's approach was more emergent and decentralised. The men were more top-down. Business bosses could learn from this.

**Communication** is the lifeblood of every organisation. This becomes very clear when a strategy is being implemented. If a functional structure is being used, managers within each function must be in regular (and full, open/honest) communication. Otherwise cracks will appear in unity and outcomes.

**Exam tip:** remember that implementation is usually through a method such as network analysis (see next page). This calls for great teamwork and communications.

## Strategic implementation: constructing logic chains (to get to the top response level)

**Chain 1.** When a decision has been made, perhaps using investment appraisal techniques (1)... it's time to make the decision happen (2)... *that's* implementation (3). The implementation project will need to be completed on time, within the budget (4)...and to the right quality level (5).

**Chain 2.** If implementation goes wrong (1)...it can cost a huge amount to turn things around (2)... as with high-speed HS2, originally budgeted at £56bn (3)... which later jumped to £106bn (4). The clearer the decision and the better the plan, the lower the likelihood of going grossly over-budget (5).

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**Ian Marcousé** is a former AQA A Level Business Chief Examiner and Chair of Examiners. He now teaches at a central London school and at London University's Institute of Education. He is the Founding Editor and lead writer for Business Review magazine.

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ISBN 978-1-9996321-7-5



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ISBN 978-1-9996321-7-5

