06 Organisational planning tools

This chapter covers syllabus section 1.6

On completing this chapter you should be able to:

- analyse the importance of business plans to stakeholders
- apply a formal decision-making framework to a business situation
- prepare a SWOT analysis for a business situation
- analyse an organisation's position using a SWOT analysis
- (H) analyse and interpret business plans
- (H) apply decision-making processes and planning tools
- (H) compare and contrast scientific and intuitive decision-making processes
- (H) construct and interpret decision trees and evaluate this technique.

SETTING THE SCENE

SanaSana business plan gives business healthy start

Setting up a new business with no clear plan is like sailing across an ocean with no charts or compass. The business plan of SanaSana is an excellent example of how new business entrepreneurs can increase their chances of success, and gain acceptance from stakeholders, with a clear explanation of:

- who the business owners are, their strengths and experiences
- the central purpose of the business and the intended market
- benefits to consumers of using the business
- the market research undertaken
- financial forecasts and the borrowings required
- the main risks likely to be faced by the business.

SanaSana was set up by five friends, 'who share one another's dreams and passions', to provide a health care information service for Hispanic (Spanish) speakers in the USA. Three of the partners are Hispanic and the other two are qualified doctors. Collectively, they have 50 years' experience in management, e-commerce, finance and medicine. The financial projections forecast a net profit of over $18 million by the fifth year of operation.

Source: MOOT CORP® Competition sample business plan

Points to think about:

- Why would you advise new entrepreneurs to write a detailed business plan?
- Which stakeholders would find such a plan useful, and why?
- Do you think SanaSana stands a good chance of being successful? Explain your reasons, referring to the details of the business plan given above.

06 Organisational planning tools

Introduction

Planning for the future and taking effective decisions are two very important management functions that are linked. Planning means establishing the future direction the business should take and setting overall objectives and targets. Strategic decision-making focuses on making choices between different strategies so that the objectives of the business are more likely to be achieved.

Business plans

KEY TERM

business plan a written document that describes a business, its objectives and its strategies, the market it is in and its financial forecasts

The contents of a typical business plan are:

- the executive summary – an overview of the new business and its strategies
- description of the business opportunity – details of the entrepreneur; what is going to be sold, why and to whom
- marketing and sales strategy – details of why the entrepreneur thinks customers will buy what the business plans to sell and how the business plans to sell to them
- management team and personnel – the skills and experience of the entrepreneur and the staff he/she intends to recruit
- operations – premises to be used, production facilities, IT systems
- financial forecasts – the future projections of sales, profit and cash flow – for at least one year ahead.

IMPORTANCE OF BUSINESS PLANS

- Business plans are most important when setting up a new business, but they should be referred to and updated when important strategic choices are being made too. The main purpose of a business plan for a new business is to obtain finance for the start-up. Potential investors or creditors will not provide finance unless clear details about the business proposal have been written down clearly.
- The planning process is very important too. If an entrepreneur went into a new business – even if no external finance was required – without a clear sense of purpose, direction, marketing strategies and what employees to recruit, the chances of success would be much reduced.
- The financial and other forecasts contained in the plan can be used as the targets that the business should aim for. The benefits of SMART objectives were explained in Chapter 3, page 23.

STAKEHOLDERS AS USERS OF BUSINESS PLANS

Business plans may be of real benefit to the stakeholders of both new and existing businesses. All organisations must plan for the future – this is often referred to as 'corporate planning'.

- Corporate planning for existing organisations can involve adapting the original business plan to accommodate new or revised strategies, such as expansion projects. If a major expansion is being considered, bankers and other creditors will almost certainly ask to see a business's corporate plan before agreeing to finance the expansion. This will help these stakeholders to assess the risk and rewards from investing in the expansion.
- The financial forecasts in a business plan can act as budgets and control benchmarks for the internal stakeholders such as business managers.
- Updated versions of the plan can be used to apply for additional funding, to attract additional partners or to supply data for the experts if a stock market flotation becomes an option. Potential shareholders will not invest without seeing a plan first.
- Employees will find that planning helps identify specific objectives and targets and gives focus to their work, which aids motivation.
- Suppliers may be able to tell from the parts of the business plan that are communicated externally whether it is worthwhile establishing a long-term trading relationship with the business.

Decision-making framework

Effective decision-making is one of the key roles of management at all levels of seniority within an organisation. Making choices between different options is potentially risky as the future success of a course of action can never be assessed with great accuracy. Managers have a range of techniques and tools available to reduce the element of risk and increase the chances of them taking effective decisions.

DIFFERENT APPROACHES TO DECISION-MAKING

There are two distinct ways in which managers can take decisions: through the use of intuition or by the scientific analysis of data.

KEY TERMS

intuitive decision-making involves making decisions based on instinct or 'gut feeling' (perhaps based on the manager's experience) for a situation and the options available

scientific decision-making involves basing decisions on a formal framework and a data analysis of both the problem and the options available

In reality, the two extremes often become blurred and most decisions will be taken by managers after some consideration using both their instinct and analysis of the data available (see also 'Decision-making approaches and techniques', page 60.)

THE FRAMEWORK

Figure 6.1 shows a formal decision-making framework that could be used by managers who adopt a scientific approach to decision taking.

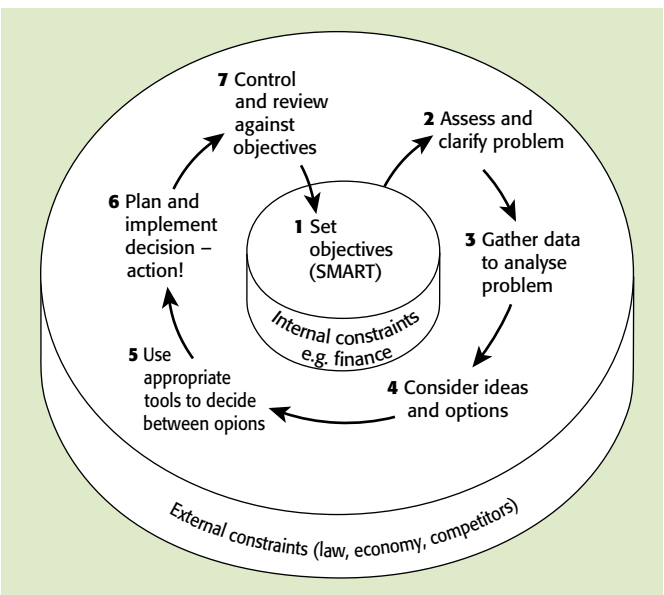

Figure 6.1 *The decision-making framework*

Stages in the decision-making framework include:

1 **Set objectives.** These will define what the organisation is trying to achieve and will be used to assess the final success of the decision.
2 **Assess the problem or situation.** Why does a decision have to be taken? Are sales or profits declining? Is there an opportunity to take over a rival business? The problem or situation that requires a decision to be made must be analysed carefully using, for example, the fishbone diagram (see Figure 6.2, page 60).
3 **Gather data to analyse both the extent of the 'problem' and the information needed to assess the options available.** This data could be primary and secondary market research data or cost data.
4 **Consider all the options available** – perhaps by brainstorming or using past experience of similar situations. However, original or innovative ideas might be more successful than using options that have been decided on previously.
5 **Decide between the alternative ideas or options using decision-making tools** such as decision trees (see page 61) and investment appraisal methods (see page 185).
6 **Plan and implement the decision.** Making the decision is just one step; putting it into effect is just as important. Resources must be prepared, staff trained, budgets set and managers given authority to carry out the decision successfully.
7 **Control and review.** Progress of the strategy must be monitored against targets and budgets and at the end of the time period set for the decision to take effect, the achievements of the option chosen should be checked against the original objectives set for it.

INTERNAL AND EXTERNAL CONSTRAINTS

Other issues to be taken into account include internal and external constraints.

KEY TERMS

internal constraints limiting factors in decision-making that can be controlled by the organisation

external constraints limiting factors in decision-making that are beyond the organisation's control

Internal constraints include:

- organisational structure – this might limit the authority given to managers to put decisions into effect
- financial constraints – these might prevent 'expensive' decisions from being taken
- labour and other resource constraints – more of these may need to be acquired
- attitude of the workforce to change – will they be likely to accept or resist change?

External constraints would be identified through PEST analysis and include:

- changes in the business cycle that may make raising finance difficult or expensive, e.g. higher interest rates during an economic boom
- changes in legal constraints that could influence demand for new products manufactured as a result of a strategic business decision, e.g. controls on the use of polluting cars in cities.

Decision-making in most organisations is a continuous process, not a series of discrete steps. This means that experience gained from taking a recent decision will assist in the next decision-making cycle and could mean that intuition becomes more important than the scientific data-based decision-making framework.

H HIGHER LEVEL

Decision-making approaches and techniques

Table 6.1 compares the benefits of scientific and intuitive decision-making.

Intuitive decision-making	Scientific decision-making
• Less time consuming than a scientific approach – could be an advantage in a fast-changing market situation where a rapid decision is needed. • Less costly than a scientific approach – no expense of collecting and analysing data, use of expert consultants, etc. This might be a particular advantage to a small business with limited resources. • Innovative or non-standard situations, e.g. technology advances, may not have relevant data available on which to base a 'scientific' solution.	• Based on a formal structure – less likely that important points will be missed in gathering data and assessing options. • Based on analysis of data, e.g. market research, costings, future returns. The final decision is likely to have a greater chance of success than one based purely on intuition. • When risks are high or cost is substantial it might be considered irresponsible for a senior manager to base decisions on 'gut feelings'.

◀ ***Table 6.1*** *Benefits of intuitive and scientific decision-making*

THE FISHBONE DIAGRAM

KEY TERM

fishbone diagram a visual identification of many potential causes of a problem

The fishbone diagram – also known as a cause-and-effect diagram or an Ishikawa diagram – may be used to analyse a problem or situation. An example is given in Figure 6.2, and is based on a brainstorming session where a team is attempting to establish all of the possible causes of iron contaminating a food product.

In this example, six main causes of the problem of iron in the product were identified. These are the most common main 'bones' that feature on the fishbone diagram. They are sometimes called the 6Ms:

- Methods – are the bottles used clean?
- Machines – are there rusty pipes in the production machines?
- Manpower – is it skilled enough?
- Materials – are the raw materials to blame?
- Measurement – is the calibration incorrect?
- 'Mother nature' (the environment) – is the working environment contaminated?

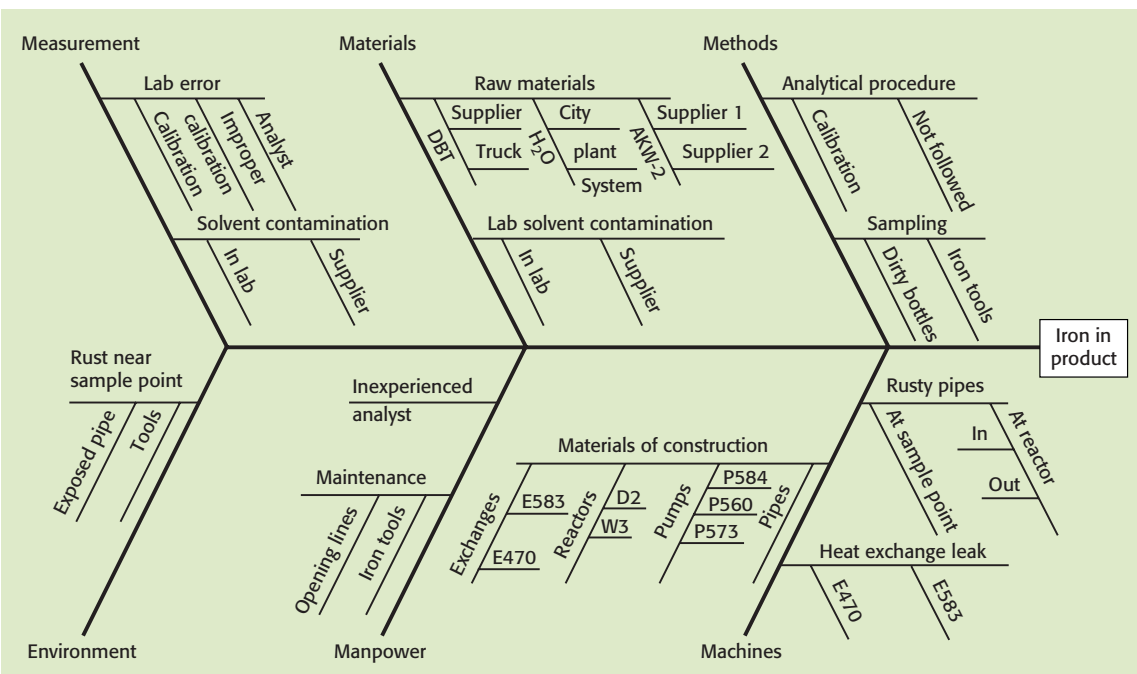

Figure 6.2 *Example of a fishbone diagram*
Source: Nancy R. Tague (2004) The Quality Toolbox *(ASR Quality Press, 2nd edition)*

More detailed discussion of each of these causes led to the factors laid out in the form of the 'smaller bones' of the fish. Stages in the fishbone process include:

1 Agree on the problem statement and write this in the centre of the whiteboard or screen.
2 Brainstorm the main categories of the causes of the problem, or use the common generic ones (the 6Ms). These become the six main bones of the fish.
3 Brainstorm all of the detailed reasons why problems might occur under each of these headings – the small fish bones.
4 Analyse the findings of the group as shown on the diagram. Investigate the most likely causes of the problem – more research might now be necessary.

Once this process has been completed the business can put strategies in place to remove the most likely causes of the problem, perhaps by adopting different quality assurance systems.

DECISION TREES

This is a technique that considers the value of the options available and the chances of them occurring.

KEY TERM

decision tree a diagram that sets out the options connected with a decision and the outcomes and economic returns that may result

This technique is based on a diagram that is drawn to represent four main features of a business decision:

- all of the options open to a manager
- the different possible outcomes resulting from these options
- the chances of these outcomes occurring
- the economic returns from these outcomes.

By comparing the likely financial results from each option, the manager can minimise the risks involved and maximise the potential returns.

Constructing decision trees

The tree is a diagram, which has the following features:

- It is constructed from left to right.
- Each branch of the tree represents an option together with a range of consequences or outcomes and the chances of these occurring.
- Decision points are denoted by a square – these are decision nodes.
- A circle shows that a range of outcomes may result from a decision – a chance node.
- Probabilities are shown alongside each of these possible outcomes. These probabilities are the numerical values of an event occurring – they measure the 'chance' of an outcome occurring.
- The economic returns are the expected financial gains or losses of a particular outcome – the 'pay-offs'.

Working out 'expected values'

KEY TERM

expected value the likely financial result of an outcome obtained by multiplying the probability of an event occurring by the forecast economic return if it does occur

Therefore, the expected value of tossing a coin and winning $5 if it comes down heads is $0.5 \times \$5 = \$2.50$. In effect, the average return, if you repeated this a number of times, would be to win $2.50 – this is the expected value. The purpose of a decision tree is to show that option which gives the most beneficial expected value.

For example, the manager of an events-organising business has to decide between holding a fund-raising auction indoors or outdoors. The financial success of the event depends not only on the weather, but also on the decision to hold it indoors or outdoors.

Table 6.2 shows the expected net financial returns or 'economic returns' from the event for each of these different circumstances. From past weather records for August, there is a 60% chance of fine weather and a 40% chance of it being poor. The indoor event will cost $2000 to arrange and the outdoor event will cost $3000.

Weather	Indoors	Outdoors
Fine	$5 000	$10 000
Poor	$7 000	$4 000

Table 6.2 *The possible economic returns from the alternative options*

The decision tree of the event is shown in Figure 6.3. This diagram demonstrates the main advantages of decision trees:

- They force the decision-maker to consider all of the options and variables related to a decision.
- They put these on an easy-to-follow diagram, which allows for numerical considerations of risk and economic returns to be included.
- The approach encourages logical thinking and discussion among managers.

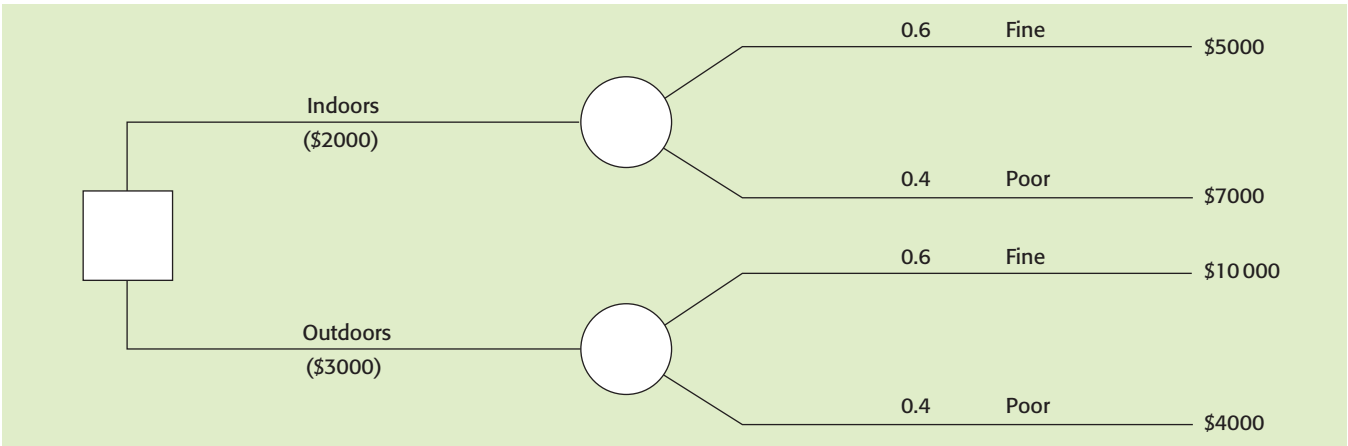

Figure 6.3 Decision tree for the fund-raising auction

Using the tree diagram in Figure 6.3, which option would give the highest expected value – holding the event indoors or outdoors? The answer is gained by calculating the expected value at each of the chance nodes. This is done by multiplying the probability by the economic return of both outcomes and adding the results. The cost of each option is then subtracted from this expected value to find the net return.

This is done by working through the tree from right to left, as follows (see Figure 6.4):

- The expected value at node 1 is $5800.
- The expected value at node 2 is $7600.
- Subtract the cost of holding the event either indoors or outdoors.
- Indoors = $5800 – $2000 = $3800
- Outdoors = $7600 – $3000 = $4600

Therefore, the events manager would be advised to hold the event outdoors as, on average, this will give the highest expected value. The other option is 'blocked off' with a double line in the figure to indicate that this decision will not be taken.

Decision trees – an evaluation

The primary limitation concerns the accuracy of the data used. Estimated economic returns may be quite accurate when they concern projects where experience has been gained from similar decisions. In other cases, they may be based on forecasts of market demand or 'guestimates' of the most likely financial outcome. In these cases, the scope for inaccuracy of the data makes the results of decision-tree analysis a useful guide, but no more. In addition, the probabilities of events occurring may be based on past data, but circumstances may change. What

ACTIVITY 6.1

Read the case study below and then answer the questions that follow.

Expansion decision

The owner of a service station is planning to expand the business. The two options are to build a forecourt to sell petrol or to construct a showroom to sell cars. The estimated building costs are: petrol forecourt – $100 000; car showroom – $150 000. The forecast economic consequences or pay-offs during the expected lives of these investments will depend on the level of demand in the economy, as shown in the table below. The probability of demand being low during the life span of these investments is 0.2 and the probability of high demand is 0.8.

Demand	Petrol forecourt	Car showroom
High	$500 000	$800 000
Low	$400 000	$200 000

The economic returns from the two options

15 marks, 28 minutes

1 Show these options on a decision tree, adding the pay-offs and probabilities. [6]

2 Calculate the expected value of **both** investments and recommend which option should be taken. [6]

3 State **three** other factors that you consider might influence the business owner's final decision. [3]

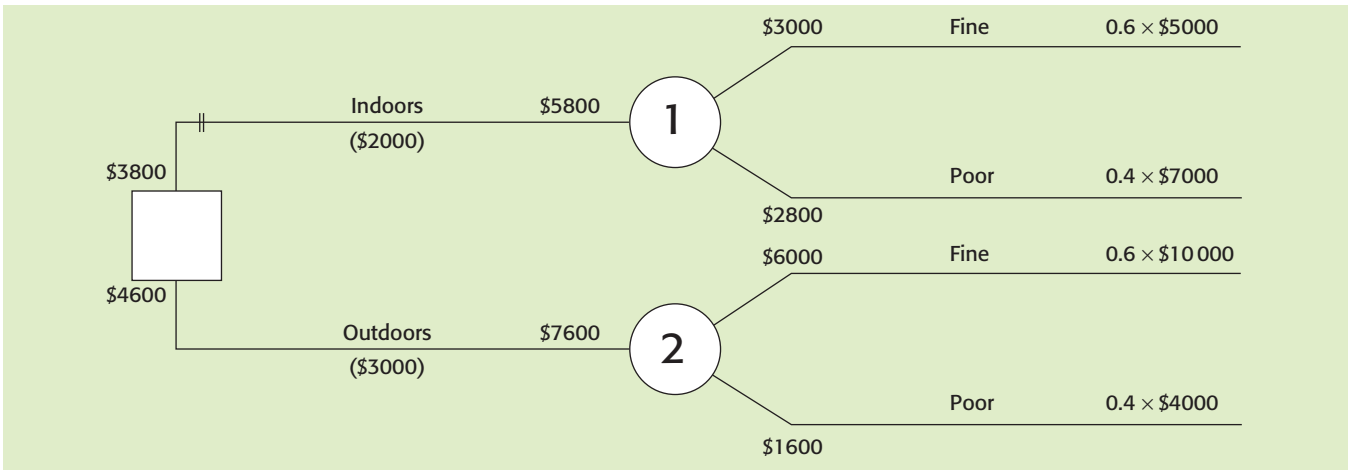

Figure 6.4 *Calculating expected values – working from right to left*

was a successful launch of a new store last year may not be repeated in another location if the competition has opened a shop there first.

The conclusion is that decision trees aid the decision-making process, but they cannot replace either the consideration of risk or the impact of qualitative factors on a decision. The latter could include the impact on the environment, the attitude of the workforce and the approach to risk taken by the managers and owners of the business. There may well be a preference for fairly certain but low returns, rather than taking risks to earn much greater rewards.

Finally, remember that the expected values are average returns, assuming that the outcomes occur more than once. With any single, one-off decision, the average will not, in fact, be the final result. Decision trees allow a quantitative consideration of future risks to be made – they do not eliminate those risks.

ACTIVITY 6.2

Read the case study below and then answer the questions that follow.

Which market?

Joe Keenan had an important decision to take. He operated a mobile market stall selling cooking pans and kitchen equipment. He has to decide which market to visit next Saturday. There are four options but, of course, he can only go to one town. He has estimated the revenues he could earn from each location by using past records and by consulting with other stall-holders. His estimates in dollars ($), together with the chances of earning them, are given below:

22 marks, 35 minutes

1 Using the data above draw a decision tree of the options Joe has and add the probabilities and forecasted economic returns. **[6]**

2 Calculate the expected values of the **four** options that Joe has. Which town market should Joe visit on Saturday on the basis of quantitative data alone? **[10]**

3 Explain **three** factors that could influence the accuracy of Joe's forecasts. **[6]**

Town A		Town B		Town C		Town D	
Probability	**Revenue ($)**	**Probability**	**Revenue ($)**	**Probability**	**Revenue ($)**	**Probability**	**Revenue ($)**
0.4	5 000	0.3	3 000	0.4	3 000	0.3	5 000
0.6	8 000	0.5	4 000	0.5	6 000	0.3	6 000
		0.2	8 000	0.1	10 000	0.4	9 000

THEORY OF KNOWLEDGE

'Chance favours only the prepared mind.' *Louis Pasteur*

1 Explain what you understand by this statement.
2 To what extent does the use of the decision tree business technique support Louis Pasteur's statement?

H

SWOT analysis

KEY TERM

SWOT analysis a form of strategic analysis that identifies and analyses the main internal strengths and weaknesses and external opportunities and threats that will influence the future direction and success of a business

A SWOT analysis provides information that can be helpful in matching the firm's resources and strengths to the competitive environment in which it operates. It is, therefore, useful in strategy formulation and selection. It comprises:

S = strengths These are the internal factors about a business that can be looked upon as real advantages. They could be used as a basis for developing a competitive advantage. They might include experienced management, product patents, loyal workforce and good product range. These factors are identified by undertaking an internal audit of the firm. This is often carried out by specialist management consultants who analyse the effectiveness of the business and the effectiveness of each of its departments and major product ranges.

W = weaknesses These are the internal factors about a business that can be seen as negative factors. In some cases, they can be the flip side of a strength. For example, whereas a large amount of spare manufacturing capacity might be a strength in times of a rapid economic upturn, if it continues to be unused it could add substantially to a firm's average costs of production. Weaknesses might include poorly trained workforce, limited production capacity and ageing equipment. This information would also have been obtained from an internal audit.

O = opportunities These are the potential areas for expansion of the business and future profits. These factors are obtained by an external audit of the market the firm operates in and its major competitors. Examples include new technologies, export markets expanding faster than domestic markets and lower rates of interest increasing consumer demand.

T = threats These are also external factors, gained from an external audit. This audit analyses the business and economic environment, market conditions and the strength of competitors. Examples of threats are new competitors entering the market, globalisation driving down prices, changes in the law regarding the sale of the firm's product and changes in government economic policy.

This information is usually presented in the form of a four-box grid as shown in Table 6.3.

	Strengths	Weaknesses
Internal	• Specialist marketing expertise. • A new, innovative product. • Location of the business. • Quality processes and processes. • Any other aspect of the business that adds value to the product or service.	• Lack of marketing expertise. • Undifferentiated products or services (i.e. in relation to competitors). • Location of the business. • Poor-quality goods or services. • Damaged reputation.
	Opportunities	**Threats**
External	• A developing market such as the internet. • Mergers, joint ventures or strategic alliances. • Moving into new market segments that offer improved profits. • A new international market. • A market vacated by an ineffective competitor.	• A new competitor in the home market. • Price wars with competitors. • A competitor has a new, innovative product or service. • Competitors have superior access to channels of distribution. • Taxation is increased on the product or service.

Table 6.3 *SWOT analysis – possible factors to consider*

SWOT AND STRATEGIC OBJECTIVES

The SWOT diagram focuses on the key issues under each heading. A brief outline of each of these could then accompany the diagram to make it more useful to the managers responsible for strategic planning. This approach helps managers assess the most likely successful future strategies and the constraints on them. A business should not necessarily pursue the most profitable opportunities. It may stand a better chance of developing a competitive advantage by identifying a good 'fit' between the firm's strengths and potential opportunities. In many cases, a business may need to overcome a perceived weakness in order to take advantage of a potential opportunity. SWOT is a common starting point for developing new corporate strategies, but it is rarely sufficient. Further analysis and planning are usually needed before strategic choices can be made.

SWOT EVALUATION

Subjectivity is often a limitation of a SWOT analysis as no two managers would necessarily arrive at the same assessment of the company they work for. It is not a quantitative form of assessment so the 'cost' of correcting a weakness cannot be compared with the potential 'profit' from pursuing an opportunity. SWOT should be used as a management guide for future strategies, not a prescription. Part of the value of the process of SWOT analysis is the clarification and mutual understanding that senior managers gain by the focus that SWOT analysis provides.

ACTIVITY 6.3

Read the case study below and then answer the questions that follow.

Strategic Analysis of LVM Ltd

LVM owns an assembly plant for laptop computers. It supplies products to some of the major brand names in the computer industry, but it does not sell any under its own name. Every six months the managers hold a key strategic review meeting to consider the current position of the business and the long-term plans. The following are extracts from the most recent of these meetings:

Imran Khan – marketing director: 'Sales of our latest large screen models have exceeded expectations and the switch towards laptops from desktop PCs is expected to continue. The chance for computer companies to break into the expanding Asian market when trade barriers are lifted should lead to increased orders too. We need to undertake some market research in Asia as this market has higher growth potential than Europe, where most of our computers are marketed. The development of the newest mobile phone technology and links with the internet remain a concern for us. We decided two years ago not to develop this technology, and, if our competitors succeed in getting a major breakthrough, then sales of laptops will dive in some markets.'

Liz Collins – operations manager: 'The automation of the screen assembly section is now complete. We managed to push this through while maintaining excellent staff relationships. This was helped by our continued expansion, which meant that no jobs were lost. We had to turn down a big order from a big name brand last month due to too little factory capacity and shortages of skilled labour. I do urge you to agree to my plan to extend the factory space by 35% and to train more new recruits. Research into the lighter, faster computer that was agreed on last year is making excellent progress and we will soon have to decide whether to proceed to the production stage.'

Lukas Klimas – finance director: 'Our profits are holding steady, but cash flow remains a concern due to the expenditure on automated machines and research costs. We would need to borrow substantially to finance a factory extension. We would be in trouble if interest rates increased – there is already some government concern about inflation rising. There is a new range of grants available for businesses relocating into high unemployment areas. We must stay aware of exchange rate movements too – the recent depreciation helped our international competitiveness.'

20 marks, 36 minutes

1 Prepare a SWOT analysis based on your assessment of the internal and external factors that influence LVM's success. **[10]**

2 Identify and evaluate two potential strategic options available for LVM Ltd by using the SWOT diagram prepared in question 1. **[10]**

OVER TO YOU

REVISION CHECKLIST

1 Why is planning essential for a new business?
2 Can an existing successful business stop planning for the future? Explain your answer.
3 Identify and explain **four** key features of a typical business plan.
4 In 2009, General Motors decided against selling off its Opel and Vauxhall car manufacturing operations in Europe. Why would GM stakeholders gain from having access to the GM business plan for these operations?
5 Explain the key differences between scientific decision-making and intuitive decision-making.
6 Identify two factors under each of the SWOT headings for any business in your own country.
(H) 7 Explain two advantages of using decision trees.
(H) 8 Explain two limitations of using decision trees.

REVISION ACTIVITY

Read the case study below and then answer the questions that follow.

The Great Walmart of China

Before moving into China, America's biggest and most successful retailer had to learn its business all over again. 'China will be as big and as successful a market for Walmart as the United States,' said a Deutsche Bank retail analyst. However, this will not be easy as China's retail market is dominated by domestic retailers and other foreign retailers have gained ground quickly. Carrefour, the French group, had sales in China in 2008 nearly 50% bigger than Walmart's. Success is not guaranteed, despite the careful analysis that Walmart did before making the big strategic move into China.

The company identified its strengths – such as huge economies of scale – and possible weaknesses – such as being seen mainly as a US retailer. It also identified the great opportunities offered by the retail market in China – with the world's largest population and fastest-growing economy. There were obvious threats to success too – such as Carrefour's expansion plans.

The management then focused their attention on the wider issues that would be important in China. These included political and legal differences with the USA, economic factors such as the yuan exchange rate, social and cultural factors that could determine demand for certain goods and the impact of technological change on retailing practices and consumer buying habits.

Despite all of this strategic analysis, according to Strategic Resource Group, 'Walmart is being outmanoeuvred by Carrefour because its executives have taken too long to understand the Chinese market and add stores.' Perhaps one of the problems for retailers, even giant ones such as Walmart, is the possible lack of a core competence, other than substantial economies of scale, that could allow them to differentiate what they offer to retail consumers.

24 marks, 44 minutes

1 Why do you think it is important to analyse the existing strengths and weaknesses of a business before taking a major strategic decision? [8]

2 Explain, from Walmart's point of view, the strengths, weaknesses, opportunities and threats in the case of its expansion in China. [8]

3 Explain why it would have been important to consider the major differences between China and the USA before going ahead with this expansion. [8]

EXAM PRACTICE QUESTION

Read the case study below and then answer the questions that follow.

FOUR SEASONS LEISURE

After a period of consolidation in 2008–9, when the Four Seasons leisure group saw a big contraction in demand due to the world economic slowdown, the company is looking to increase its share of the upmarket, all-inclusive holiday resort market. Thirty years of providing holidays to high-income European and North American consumers make Four Seasons Leisure one of the most prestigious brands in the Caribbean.

Despite the recession, the company performed fairly well in 2009. Profits fell 5%, but this compared favourably with an industry average profit decline of 9%. Four Seasons has attributed the group's relative success to effective management from a team of people that have considerable knowledge and expertise in the market.

The management team is not complacent, however. The chief executive officer, Austin Walsh, thinks the company's concentration in the Caribbean is a weakness because of competition from new holiday destinations such as Dubai. Austin believes the company needs to expand into some of the new destinations that its customers are interested in visiting. The directors are considering three options for 2013:

			Projected profits based on economic conditions ($m)		
		Initial cost ($m)	Fast growth	Normal growth	Recession
Option 1	Open new resort in Dubai	120	400	200	−100
Option 2	Open new resort in Thailand	150	500	300	−50
Option3	Upgrade existing resorts in Caribbean	80	150	120	100

The consultancy that produced the projected costs and profit data believe that there is a 20% chance of fast economic growth, 50% chance of normal economic growth and a 30% chance of a recession.

25 marks, 45 minutes

1 Produce a SWOT analysis for Four Seasons Leisure's current position. **[8]**

H 2 a Construct a fully labelled decision tree showing Four Seasons' options. **[5]**

b Calculate the expected values for each option. **[6]**

c On financial grounds state which option Four Seasons should choose. **[2]**

d Analyse **one** weakness for Four Seasons of using decision tress as a basis for making this business decisions. **[4]**