

Business Studies

Advanced GCE A2 7811

Advanced Subsidiary GCE AS 3811

Report on the Units

June 2007

3811/7811/MS/R/07

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2871: Businesses, Their Objectives and Environment

General Comments

The majority of candidates had been well prepared for this examination. There were some very good scripts with candidates demonstrating an excellent grasp of both business concepts and examination technique. Unfortunately, the reverse was sometimes also true - but to a lesser extent than the January session. In terms of the quality of written communication there were some very poorly presented scripts. There were far too many scripts with what can only be termed 'scribble' on them. These candidates seemed to have adopted a 'you decipher it' attitude and this does not do them any favours. In addition, many have no idea of paragraphing at all. It has been noted before that long 'stream of consciousness' answers tend not to score well. Clear writing and separate paragraphs certainly make a difference to the examiner's understanding of the candidate's argument.

Although it seems an obvious point to make, this session's examination really did demonstrate the importance of reading the question both in terms of the 'trigger' word and in terms of what was actually required. Taking these points in order; on Question 1 some development *outlining* the benefit was required for Level 2 of the mark scheme; whereas on Question 3 where the trigger word was 'state', a few words were all that was required. However, many candidates wrote nearly half a side when, for example, the words "bank loan" and "past profits" would have gained both marks.

Question 2 once again demonstrated the dangers of question spotting with many candidates answering from the perspective of DKE as a business rather than the effect of Simon's behaviour on its stakeholders. Answers in this vein were never going to score well. There was no evidence of any time pressures on candidates.

Comments on Individual Questions

- 1 This could have been answered from the perspective of the benefits at the founding of DKE and/or to its ongoing operations. Also, as a partner, Don is legally part of DKE and so comments on the value of benefits to him personally were also valid.

Statements such as "It will help raise finance" and "It will provide a series of targets to aim for" were valid but were only creditable at Level 1: the question asked for *an outline*. This meant that an additional comment was necessary such as (respectively) "because potential investors want to see that Don knows what he is doing", and "so that all the employees know what they are expected to do".

The majority of candidates did this and so picked up four straightforward marks.

- 2 Essentially this question revolved around 'which stakeholders benefit/suffer?' and 'why?' It was a question which discriminated well, but there were two causes of concern to the examining team in relation to this question.

Firstly, many candidates started their answer by repeating large amounts of the case – sometimes word for word. There was nothing to be gained from doing this. Candidates need to be aware that there is a difference between citing case material as evidence in an argument and simply repeating it to (presumably) 'set the scene'.

More significantly, the second concern was that many candidates failed to answer the question that had actually been set. The focus should have been on the effects on the stakeholders and not on DKE as a business. Far too many dwelt on issues such as the effect on the business' reputation, repeat custom and future profits resulting from Simon's behaviour. Unless these points were then clearly put back into the context of the effect(s)

on stakeholders they were not valid. It seemed as if some centres had primed their candidates for a question on the effects on DKE and candidates on seeing the words "Simon's attitude to business ethics on DKE's stakeholders" chose to ignore the "s" and the final word altogether.

On the positive side, it is encouraging to be able to report that when the question was tackled correctly there was often a good deal of solid analysis resulting in marks at the top of the level. However, it was then very frustrating for examiners to see a very large number of candidates stop short of any evaluation. This evaluation could have taken the form of a decision on which stakeholder(s) 'lose' (or benefit) the most, or alternatively the short and long run effects on the stakeholders. This 'stopping short' at the end of an analytical answer has been noted in past 2871 reports several times and remains an issue for many centres and candidates.

- 3 The overwhelming majority of candidates scored both marks here.

Any *appropriate* answer was acceptable, eg Don could take out a loan a loan/mortgage, he could try to borrow more from his brother, he could take on another partner or partners he could use any reserves of cash or profit, etc.

Despite the straightforward nature of the question, on occasion, examiners felt that some candidates were taking a stab in the dark. "Issue shares" was not valid as the business is currently a partnership! Neither was "become a plc". Candidates are expected to know the characteristics and implications of a business operating as a public company and this option would be extremely unlikely for a business in DKE's current position.

As with Question 1, a few moments careful thought meant full marks.

- 4 This question has been asked before on Unit 2871 and candidates could have answered from either or both of the following perspectives:

Changes in the external environment (eg changes in the state of the economy with concomitant changes in spending levels, interest rates, etc.) the disappearance of a competitor such as Michael, a change in customer preferences etc. or *changes in Don's/DKE's 'position'*, ie once an objective is reached then another will then be set.

In practice, of course, both of these are inter-linked and a candidate recognising this was appropriately rewarded.

Answers discussing the importance of objectives and/or how they should be 'SMART' were at best at a tangent to what was required.

Essentially the key to scoring well here was to analyse why an objective might change, the likely change and provide a link between the two. Such answers were well rewarded.

- 5 Like Question 2, this was also a good discriminator. Those candidates who had little idea about the nature of the economy (and those who confused it with 'economies of scale') were fairly few and far between. Many candidates demonstrated a sound knowledge of what might be the characteristics of 'a favourable economy'. There was often good analysis, particularly of the result of a change in GDP, income tax, and interest rates. This was very encouraging – even if the correct spelling of 'interest' still eluded many. However, as with Question 2, a number of candidates once again stopped short of an evaluation which could easily have accessed the highest level of the mark scheme.

Reports on the Units taken in June 2007

Two minor points can be made. Firstly, there were often some problems explaining a change in the exchange rate. Candidates sometimes tied themselves up in knots trying to analyse the effect of a change on any imported components which DKE might buy. Exchange rates obviously still baffle many. Secondly, there was often the statement that higher rates of interest slow consumer spending “because then people save more”. The effect is right but the reasoning is incorrect; for the majority of consumers it is because of higher debt repayments. Candidates were not, of course, penalised for this but they need to realise that for most consumers a rise in the rate of interest is not usually a cause for celebration and higher levels of saving.

In answering the question, candidates could have considered the effect on DKE’s operations or/and customer behaviour.

A very large number of candidates sensibly considered the extent to which demand for DKE’s products might change when consumers’ incomes changed. When the issue that there are legal requirements regarding brakes, tyres, etc. was also considered it was a relatively easy step for many to evaluate and say that DKE was “recession proof” or that a boom may not be that beneficial.

The very best candidates made a judgement of the effect(s) on DKE in the light of how severe and/or long-lived a recession or boom was likely to be.

It is encouraging that on a topic such as ‘the economy’, which has in the past caused problems for many candidates, now appears to be well understood and accessible to the majority of those taking the paper.

2872: Business Decisions

General Comments

Most candidates coped well with the nature of the business featured in this paper, with the best answers taking on board the issues related to a national business operating in the food sector.

As has been stated many times before, candidates would benefit greatly from use of the back catalogue of past papers to give themselves the opportunity to practise answering questions within the very short time period imposed in this paper. This will help them in developing the skills they need to be able to read the question and know what the question requires. For example the first question asked candidates to 'outline'. This is more than merely stating points and requires the development of an answer either by explanation or by using a relevant example.

Again a clear lack of knowledge of some areas of the specification was evident in some scripts. This is particularly disappointing when some of the answers produced by a candidate demonstrate high level skills and others are weak simply due to a lack of knowledge. Candidates must ensure they are comfortable with the whole specification, not just the areas which they particularly like.

While there was some good application in the work of many candidates, some are still failing to make use of the data provided in their answers. This goes beyond merely mentioning the name of the business. Practising past paper questions will help to develop this skill which will enable them to move into the higher mark levels.

Demonstrating evaluation remains problematic for many candidates. Candidates can demonstrate this skill in a variety of ways. For example, they can use the data to consider the relative importance of different factors and their effects on the business or, they could make judgments by making comparisons between different courses of action. Previous examiners' reports, and the teachers' guidance notes for this specification (available via the OCR website), indicate a wider variety of ways by which candidates can show evaluation in their answers.

Comments on Individual Questions

- 1 For many candidates this proved to be a straightforward question allowing them to pick out the relevant methods of below the line promotion from the text and to develop their answers with suitable examples or explanations. However, it was very disappointing see the substantial number of candidates who clearly did not know the difference between above and below the line promotion. Many candidates incorrectly identified radio and television as their example with the mistaken idea that if it was local it was below the line. Merely stating the correct methods only gained half of the marks available.
- 2 This was probably the most challenging question on the paper. This was particularly the case for candidates who made no use of the data provided. The best answers were able to discuss the contrast between the decentralisation of the divisions and the centralisation of the production of savouries. The better answers also tackled the issues arising from having a hierarchical structure along with some matrix structure features such as the cross functional teams. Thus candidates were then able to make some informed judgement as to the effectiveness of the structure for the business. However, weaker answers focused on human resource management with many candidates producing descriptive answers focusing on issues such as communication and delegation with scant analysis or reference to the business. Other poor answers focused merely on geographical issues.

- 3
- (a) Most candidates struggled to complete this calculation. Many responses demonstrated scant understanding of the components of current assets or current liabilities and there was a great deal of confusion between debtors and creditors. Other features of weak answers included adding in the profit figure. A small number of candidates clearly did not read the question carefully and selected the data from the wrong year.
 - (b) Yet again candidates do not seem to realise that the calculation in the first part of the question can be used in the second part of the question. This means that they are not taking advantage of straightforward route into analysis.

The weakest answers lacked focus and simply threw in anything which the candidates could think of related to finance. It was apparent that many candidates simply did not know the difference between cash flow and profit and these responses produced general answers about sales and costs/expenses lacking any focus on the main issues of the question. A significant number of candidates produced weak responses as they confused debtors and creditors to their detriment. Candidates who wandered down the sources of finance route by considering issues relating to the expansion of the business rather than cash flow were not successful in answering the question set.

However, answers which focused on cash in and out of the business and considered the control of debtors, creditors and stock were able to achieve within the higher mark ranges. Other good answers were able to contrast liquidity issues with profitability. The best responses came from candidates who were able to use the data given to discuss the very high levels of net cash balances in the business in relation to the other elements of working capital. Other successful approaches considered the relative importance of the factors affecting the cash flow of the business in order to reach a judgement.

- 4
- This question tended to be answered well with many answers focusing clearly on the nature of the business. Candidates were able to identify that quality is of the utmost importance for a business involved in making and selling food and were able to consider the consequences of failing in this aspect. Issues such as poor reputation and the consequences of legal action were popular approaches. Weaker answers tended to describe quality control methods with the emphasis incorrectly placed on how the business achieves quality control rather than why it is important.

As has been stated many times before, many candidates do not structure their answers to enable the ease of the reader. Lack of paragraphs, listing and the same spelling errors are still evident in a significant number scripts.

2873: Business Behaviour

General Comments

Most candidates attempted all questions but answers to Question 4 were sometimes rather short. However, this often seemed more to do with a lack of knowledge, rather than a particular time problem. There was no evidence of any time pressures otherwise.

There was a greater mark range this series as compared to previous years, confirming that the paper differentiated well. As usual, there was often a pattern in the answers from Centres, and on Question 2 a significant number of candidates did not answer the question as set, but rather the one which they were expecting; usually a tirade on the supermarket contract. It is still surprisingly true to say that many answers showed little knowledge of the pre-issued case material, as candidates launched into excessively general answers, particularly about the marketing mix and JIT. There was a lack of engagement with the case in many answers, depressing marks considerably.

However, the examining team did see more examples of good Level 3 and Level 4 answers this series, particularly in Questions 1(b) and 3. On the other hand, it was much more noticeable this year to find high quality discussions in answers, but unfortunately not attempting the right question.

The quality of language has not significantly improved, although more candidates did write in paragraphs. A lack of capitalisation is also creeping into many answers.

Comments on Individual Questions

1 (a) (i) Most candidates were able to gain some marks on this part of the question, with over half getting full marks. There were few answers with no working shown but at times candidates did not make it easy for the examiner to follow what was being done. In general, this was a fairly good discriminating question with the full range of marks awarded.

(ii) Of the candidates correctly answering the previous question, as many as half of them dropped one of the two marks available here by dividing the difference in earnings by the qualified baker's wage, rather than the calculated answer in part (i). Candidates who got the wrong answer in part (i), but then used this correctly here, were able to gain both marks using the 'own figure rule'.

Centres need to be reminded of the fact that candidates can be asked to undertake basic, functional calculations as well as apply subject specific formulae. This type of question, albeit for two marks, seems to cause problems for many candidates.

(b) A significant number of weaker answers simply summarised Andy's view and failed to apply the case material. This wholesale copying out of the case material gains no credit. Lots of answers went no further than considering the unfairness of Andy's situation, but without using any of the contextual evidence to back up their comments.

Many candidates discussed how Andy was paid and how unfair it was, but very few really explored the non-financial incentives by which he may be motivated. Level 3 was commonly achieved through these links to motivation. Some candidates did further calculations on the number of weeks it would take for the unskilled worker with overtime to earn the same as Andy, which again scored Level 3 marks.

Better candidates considered the long term perspective of how, once the investments in the new machinery paid off, the bonus could, in effect, be much higher. It was also evident that some candidates could analyse the time factor, ie Andy has to wait for an annual bonus, whereas the unskilled are rewarded monthly. This sort of evaluation, if rather rare, gained top marks.

2 This was poorly answered. Marketing questions are normally an excuse for candidates to open the flood gates of their knowledge on the marketing mix. It was, therefore, strange that so many candidates missed this opportunity to consider the marketing mix when they were actually asked about it! Instead, many candidates saw this as either a question on production techniques or whether the supermarket contract was a good idea.

Some candidates seemed totally unaware of the 4Ps. Just as worryingly, a significant number did not seem to understand what the marketing mix actually was and simply referred to different distribution outlets.

The common route to good marks involved making links to product quality and the impact this might have on image and the trustworthiness of consumers to buy this sort of product from supermarkets. The likely need to introduce ready mixes and preservatives to satisfy the supermarkets demands was another good contextual link.

When price was mentioned it was common for the answer to stay in Level 2. Candidates recognised the power of the supermarkets, but they struggled with the impact on FFN, many confusing profit margin with profit (ie they failed to understand the volume of sales element). Many were also unsure whether the supermarkets would push prices of FFN's products up or down. Once again, given the pre-issue time available, it was surprising that candidates did not have a better understanding of how supermarkets can have an impact on producers, particularly smaller ones.

3 This was the best answered question on the paper with many candidates achieving Level 3 by considering the relative merits of JIT stock control for FFN. There were a lot of excellent answers where the flow of understanding merged with the context, leading to often fluent analysis and evaluation. It was common to see recognition of:

- the number of suppliers that FFN has and its implications when you have a boss who likes to check everything herself;
- the difficulty of quality checking 100 ingredients when they spend so little time in stock;
- how JIT may help with FFN's apparent cash flow issues.

Many candidates went on to achieve a Level 4 mark by making and justifying a decision as to whether JIT was appropriate for FFN. Most of these said it needed Kirsty to reduce the number of suppliers or the logistical problems would outweigh any benefits.

Disappointingly, there were still many candidates who were unsure of what JIT really involves. There was some evidence of candidates confusing JIT stock control with JIT production, which limited those responses. Also, a significant number argued that JIT still involved holding a buffer stock level. For another considerable minority of candidates, a mark of six was the highest that could be awarded as their answer was a generic one which could be applied to any business.

- 4 Good answers were few and far between with generally low Level 2 and many Level 1 responses. Candidates did not seem to appreciate the need to link different stakeholders to specific data. Many candidates kept using the word 'stakeholders' all over their responses but did not identify any. Others just wrote all they knew about final accounts. Some candidates had excellent knowledge, for example about window dressing, but struggled when using this to answer the question.

Some candidates wrongly assumed that only the data which appeared in the extract was in the final accounts. There was also at times a surprising lack of knowledge as to what final accounts contain, and who might find them useful, particularly given the 'flag' in the pre-issue.

Better answers included calculations, such as the 42% increase in sales turnover, 95% increase in net profit, 217.6% increase in stock and 137% increase in debtors, and then linked this to relevant interested stakeholders, such as suppliers, owners and employees. The best answers frequently used the example of Andy's bonus to show how he, in particular, could use the final accounts to his benefit.

Summary

- Once again, candidates made insufficient use of the context, which suggests poor use of the pre-issue time. Too many answers identified relevant pieces of context, but then failed to take that extra step to do something with it.
- More significant this series than in the past, was the persistent misinterpretation of questions by candidates, frequently on a Centre specific basis. This was most evident in Questions 2 and 4. Centres must continually emphasise the mantra 'ANSWER THE SET QUESTION'.
- Many answers contained lots of good business knowledge which was not then applied to the business in question.
- Once again, many candidates did not appear to have a calculator in the examination.

2874: Further Marketing

General Comments

The context was again considered to be accessible and the message about the need to use the context appears to be slowly getting through. The June 2007 paper is the twelfth time that Further Marketing has been examined and, as might be expected, there is very little which could be described as 'new' topics that could be assessed.

Candidates generally seemed to have enough time for the paper and seemed to allocate time appropriately for the marks available. Unlike previous sessions, the numerical question was attempted by nearly all candidates and most were able to achieve some marks. It is again interesting to note, however, that very few candidates use the information from the numerical question in the question which follows. It is always the case that questions which test the numerical aspects of the course are never set in isolation. If candidates are able to make use of their response in the following question, it is quite likely to be analytical.

Quality of written communication was good; nearly all candidates gained two marks, though there were some spelling errors. The use of grammar was generally sound and concepts and arguments were clearly conveyed, though not often in depth nor concisely and clearly. Question 2 (a) produced a minority of candidates who had little idea what personal selling is, with others unable to link it to the case material. There were many others who drew on the information given and developed analytical application of appropriate concepts or methods. Some responses failed to address the question set, particularly in Questions 1 (b) (ii) and 2 (c). Very few candidates produced good responses to all the questions and many scored highly on perhaps two, much less well on the others and this restricted their overall mark. There is again an impression that more candidates understand the skill of analysis but evaluative responses were rarely seen on a consistent basis.

The subject content for Further Marketing now appears to be well handled and there were very few answers which demonstrated a complete lack of subject knowledge. It is, therefore, a real pity that responses fail to be enhanced by greater use of the case material.

Time was, again, not an issue for candidates in this paper.

Comments on Individual Questions

- 1 (a) A relatively straight forward opening question giving candidates the opportunity to analyse two factors which encourage customers to buy products. The sting in the tail for many was the need, as always, to relate it to the business in the case. In general this was well attempted with a high number of responses showing understanding of the concept.
- (b) (i) This was the first time that this topic has been directly tested and responses were quite mixed. Advertising elasticity of demand calculations is dependent on two percentage change aspects. In this case one of them was given in the case itself. Many candidates failed to read the case carefully enough and made an attempt to use unnecessary information. There remains an issue with percentage change calculations and this led to candidates demonstrating the full range of responses. As such, the question worked well.

- (ii) This question gave candidates many routes to Level 4. As stated, there appears to be a reluctance to make use of the calculation from 1 (b) (i) or indeed, any other evidence, especially Table 1. There was a need to present a balanced response with better candidates able to show genuine evaluation of the effectiveness of spending on advertising. A number of answers focussed on advertising or promotion strategies with little attempt to answer the question set. Such responses tended to offer improvements which could be made to the advertising carried out.

The answer to the question was quite straightforward and many candidates would have benefited from simply responding to the words in the question. In essence, the question deals with whether Dan is able to assess whether advertising is worthwhile. There is potentially some overlap with Question 1 (a). The factors which affect demand for WOF's products include advertising but are not exclusive to it. External factors were rarely discussed. Some candidates considered the need to carry out market research to assess the quality of the advertising and how effective that might be. This led to some quite good responses and acted as a solid starting point for good discussion.

- 2 (a) This proved to be quite a disappointing question. Responses were mixed and tended to fit into one of three categories. There were some candidates who had little or no idea what is personal selling. This made it very difficult to achieve many marks. Other candidates were able to show understanding of personal selling but made little or no attempt to use case evidence. Better answers were able to make use of the case evidence with particular reference to the van drivers and a possible extension to their role.
- (b) It has become standard practise to include a question which assesses the strategic aspects of the subject. These questions tend to focus on pricing, promotion, market research, distribution, product or, as in this case, an overall marketing strategy. In many questions found within past papers, there has been a need to develop the strategy for the whole business. This question was no exception to that trend and the case material offered plenty of opportunity to consider a series of options. One aspect which many candidates failed to consider was the nature of the business and the type of customers. A marketing strategy for a business that sells largely to commercial/trade customers is likely to be handled differently to firms selling consumer based goods. Some answers made good reference to the 4 P's but better responses integrated the different aspects of the marketing mix in relation to WOF. Strategies are the means by which objectives are achieved. Very few responses made reference to the objectives considered in the case evidence. The best responses simply answered the actual question set.
- (c) Ansoff's Matrix has been tested a number of times. Responses have been mixed each time and this session was no different. Many candidates failed to read the question carefully enough and focussed on the decision between the options rather than the effectiveness of Ansoff's Matrix. Better answers made the links between the four segments of the Matrix and the possible options. This often led to interesting discussion about the usefulness of Ansoff's Matrix. As with many other questions, there was a need to evaluate and this required a balanced response. Answers at the top end of the mark range considered both sides of the discussion.

2875: Further Accounting and Finance

General Comments

Finance and accounting papers always differentiate effectively across the full ability spectrum and this paper was no exception. It provided all candidates with an opportunity to demonstrate what they knew and understood while at the same time allowed the more able candidates an opportunity to demonstrate higher order skills.

The examiners were pleased to note an increase in the number of high quality scripts. However, there was evidence that some candidates, and indeed some Centres, were simply under prepared for the challenge posed by the paper. It is most disappointing to see candidates leaving parts of questions totally unanswered, especially when they are on main stream topics such as cash flow forecasts.

Teachers might like to draw their candidates' attention to the following points:

- it is essential that candidates show their calculations in numerical questions;
- candidates must think about the significance of any value calculated eg is a return on assets likely to be 500%?;
- evaluative judgement is much more than simply stating an opinion. It represents judgement based upon the analysis of the data/information given in the text;
- when carrying out an analysis of a company think carefully about which ratios are best to use. A few appropriate ratios are much better than a large number of inappropriate ones. A clear focus needs to be given to the analysis which reflects its purpose;
- read the trigger word in the question with care. This may seem obvious but many candidates simply fail to do this and hence, in effect, answer a different question.

Comments on Individual Questions

- 1 (a) Although many candidates correctly calculated the return on net assets, a significant minority had no idea how to tackle this part of the question. A common mistake was to compare net assets to sales turnover. Candidates really must set out their work in a systematic and logical fashion. This includes showing the formula to be used in carrying out the calculation. A jumbled mess of disorganised figures simply will not score highly. The business made a profit of £945,000 in 2006 (up 5% on last year's figure of £900,000). Thus the return on net assets in 2006 = $\text{profit/net assets \%} = 15.75\%$.
- (b) (i) Most candidates were aware of the nature of a dividend. They knew that it represented profits distributed to shareholders. Thus they were able to see that such high payments (up 30% in 2006) represented good news to shareholders in terms of dividend income. However, better candidates were able to show understanding and analytical skills by comparing the rise in dividends to the growth in profits and looking into the opportunity costs to the company. Some candidates made reference to the source of funds implications and the rise in debts both long and short term. The Level 3 analytical answers had strong contextual reference given by looking at the depletion in the reserves and the longer term implications of the strategy.
- (ii) This part of the question proved quite challenging for many candidates. They were often unaware of the nature of goodwill as found in accounts and assumed that it was some measure of how much its customers liked the business. Better candidates knew that goodwill represented an intangible asset incurred when a business is acquired for more than the book value of its assets.

They thus recognised that an increase in goodwill must have come about as a result of purchasing new restaurants at perhaps an inflated price. There were many very good answers discussing the validity of including goodwill in the accounts of a business. There were, however, many answers which showed a complete ignorance of the concept. This question discriminated brutally between candidates.

- (c) There were many good quality answers given to this part of the question. Almost all well prepared candidates attempted some analysis of the position of the company in 2006; unfortunately, some found it difficult to draw much by way of a conclusion from their ratio investigation. Often answers said things such as “the company’s position is good or bad” but failed to consider the criteria being used to make this judgement. Others indiscriminately calculated every ratio they could remember without any real purpose or focus to their investigation. Others looked at the position but not the performance of the company. However, the better candidates were able to focus their analysis in a more structured way and were able to see that the performance of the company was not as strong as the C.E. had said (both return on net assets and net profit margins down on last year). Furthermore, the rise in the gearing ratio coupled with the deterioration in liquidity showed that the financial position of the company rendered it dangerously vulnerable. Many perceptive comments regarding both the short and long run position of the company were made showing high quality evaluative judgement. The question gave virtually all candidates an opportunity to score positively.
- 2 (a) This part of the question was done surprisingly badly. A significant number of candidates failed to show that they really understood the nature of cash flow forecasts. Some appeared to confuse them with budgets and talked about them in terms of targets. Others thought that they were a means of forecasting future profits/losses. The fundamental nature of cash flow forecasts is that they are a prediction of the timing and amount of cash moving in and out of a business over a given time period. They were especially important for this company, given its rapid projected growth, capital shortages and extremely weak liquidity position. Better candidates picked up on these issues but far too many answers were of a solely generic nature with no real reference to the position of CEP.
- (b) This part of the question allowed candidates to write at length about stakeholders and many took this opportunity. Almost all were able to discuss sensibly the needs and objectives of stakeholders in the abstract. Better candidates focused more specifically on the growth strategy for CEP and how this might impinge on its stakeholders. In particular the potentially high risk associated with the tendency of the business to overtrade was picked up by better candidates who were, therefore, able to conclude that perhaps this accelerating growth strategy was not in the best interests of any stakeholder. Many candidates rather uncritically assumed that the growth of CEP must be good for everyone as it created more employment opportunities and more profit and so on. Evaluation requires considered judgement and this was a distinguishing feature of the Level 4 answers to this question.

2876: Further People in Organisations

General Comments

Although mentioned in prior reports, one noteworthy issue that continues to affect many candidates' performance remains; a difficulty in responding to the type of question which tests candidates' ability to extract and make use of numerical data from the case study. In this particular instance, many candidates forfeited the opportunity to gain what should have been four relatively straightforward marks.

Another particular issue in this examination was the inability of many candidates to use the context of the case study in their answers. As a result, candidates produced answers which could apply to any business anywhere, rather than responses relating specifically to HDCL. Candidates who scored well did so because they did not make the afore-mentioned mistakes.

Overall, this examination revealed that a great many candidates had a sound knowledge of relevant theories and concepts, but all too often poor examination technique and insufficient use of the case study proved to be the undoing of them.

Comments on Individual Questions

- 1 (a) (i) and (ii) Many candidates failed to get any marks at all for this question. Those who did invariably completed the whole calculation correctly and arrived at the appropriate answer. Candidates are advised to check their final calculation(s) to make sure that they are realistic.
 - (b) There was a particular focus required to answer this question effectively, ie the implications of using agency workers. Unfortunately, too many candidates chose to ignore this focus, and either alluded vaguely to possible Human Resource issues, or offered more 'general' implications. Candidates who used the context and actually answered the question invariably scored high Level 2 or Level 3 marks. Better candidates used calculations based on the tables in the case study or used their calculations from Question 1 (a) to illustrate implications.
 - (c) The key word in this question was 'evaluate'. Candidates who did not demonstrate this skill wasted the opportunity to access up to seven available marks.
For many candidates this turned out to be an expensive omission. However, there were a number of better candidates who were able to consider the pros and cons of their suggestions to reduce the need for agency workers with some judgement which clearly used case study evidence. More common was the ability to demonstrate some analytical skills of a relevant nature, but not to progress any further; therefore, leaving their answer somewhere in the Level 3 band.
- 2 (a) A lot of candidates seemed to be unsure as to the role of a personnel manager, often suggesting that the production schedules and problems with production would be sorted out, without any reference to Human Resource issues. Better candidates recognised that it might be easier to focus on motivation, training and recruitment issues with a specialist focus, and also recognised that it would allow the other managers to concentrate on their own roles, with the assistance of a personnel manager to use their skills and specialist knowledge to deal with human resource issues.

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- (b) The keyword in this question was 'analyse' though this skill was not evident in many of the answers. Many responses failed to focus on any contextual issues, merely citing generic issues relating to health & safety issues which could relate to any business anywhere.
- (c) The key to this part of the question was the ability to evaluate, which proved to be a problem for many candidates; even those who were able to readily demonstrate analytical skills. Better candidates used the context of the case study very well and were able to justify their recommendations.

Suggestions on improving candidate performance in future examinations might include:

- exercises to better develop examination technique perhaps through the use of previous 2876 case studies, question papers and mark schemes;
- sharing the nature of the levels of response mark scheme with candidates ie the hierarchy of skills being tested;
- a focus on ensuring that candidates can cope with any type of question requiring calculations based on Human Resource concepts;
- ensuring that candidates recognise the importance of demonstrating evaluative skills.

2877: Further Operations Management

General Comments

Teacher's Tip – You **must** get across to your candidates that, in order to gain good marks, we expect candidates to be thinking about how appropriate their ideas are in the context of the particular business in the case study.

The summer 2007 case study concerned a large producer of soft drinks based in Somerset. I am pleased to report that it seemed easily accessible to candidates and there was evidence in many scripts of case material being used in support of points being made. This is most encouraging and helps focus the candidates' answers more clearly and gives them the opportunity to examine issues in context. As examiners this makes it much easier to award marks in the higher levels. Without context candidates can rarely score marks above the minimum Level 2 mark at A2.

On the questions, generally candidates displayed a sound knowledge and understanding of the operational areas of business. However, on a small number of scripts there was still a tendency for candidates to pick up on a particular term in the question and then just trot out a textbook style answer. For example, Question 2 (b) on critical path analysis. A significant number of candidates simply wrote about the pros and cons of this technique but failed to address the question which was how useful is it as an aid to decision making in the context of the supermarket order

A further issue continues to be the failure of many candidates to answer questions within the context of the case study. This is such a crucial weakness for a significant number of candidates who believe it is sufficient to demonstrate their knowledge of a topic and simply name the business used in the case study in their answers. Using the initials SFDL is not contextual – the answer must specifically use data from the case study drawing on evidence to help illustrate or support points they are making. Again, this was particularly true for the higher mark Questions 1 (c) and 2 (c). This point has been strongly emphasised at support meetings over recent years when we feedback on the performance of candidates in recent examinations.

It was again encouraging to see candidates managing their time well. There was little evidence of excessively long responses to the lower mark questions such as 1 (a) and 1 (b).

The quality of written communication was again generally very good, with many candidates gaining the full two marks. Handwriting seems to be a problem in a small number of cases – sometimes it is barely legible. Examiners do their best to read candidates' answers but sometimes candidates do not help themselves. Some candidates continue to write their responses as one long paragraph or, more rarely, use bullet points, particularly on the longer questions. This must be avoided. The small number who continue to present their responses in this way clearly fail to structure their answers and may lose quality of written communication marks as a result.

Comments on Individual Questions

- 1 (a) I was hoping candidates would think about the benefits of having these three key areas of business operations on one site. Most identified the reduction in transport costs this is likely to bring for the firm but failed to develop this in terms of, say, shortening lead times or improving delivery to customers with the benefits this might bring. Many answers vaguely discussed “improved communications”. Context was also often lacking.
- (b) This part of the question was surprisingly poorly answered by many candidates, given the number of situations where production and marketing were working together in the case study; for example, the proposed supermarket order. Candidates must also remember that ‘analyse’ means that they should clearly demonstrate in their answers how the point they are making impacts either positively or negatively on the business. For example, market research may identify possible new products or changes in tastes which operations can respond to with, say, new flavours. This gives SFDL a competitive advantage and the opportunity to replace products reaching the end of their life cycle.
- (c) I had anticipated that this part of the question would be quite well done by candidates. However, too many candidates simply saw the reference to continuous flow production and then proceeded to write about the pros and cons of this method. The question was quite specifically about switching lines from batch (which was currently used at SFDL) to continuous flow. In the text were many points that could be explored eg rising demand, the need for flexibility, the growing demand for fresh juice drinks and smoothies that “need to be produced in relatively small batches”.
In answers to such longer questions it is important for candidates to produce a balanced response pointing out the benefits and drawbacks of changing production methods and then drawing a conclusion as to whether or not this is a sensible strategy for SFDL to follow.
- 2 (a) The calculation question was generally well done with the majority of candidates getting the correct response to part (iv) as 14 days. The least well-done part of the question was the total float for M which was 0 days. However, it was pleasing to note that there was no evidence of this concept not being taught in particular Centres.
- (b) The majority of candidates who scored well on this part of the question pointed out from the calculation carried out in part (a) that the supermarket order could be completed in 14 days, which was well within the deadline of 28 days. Many candidates though, completely ignored their calculations and wrote a general answer on the pros and cons of critical path analysis. Better candidates were able to develop some sensible contextual drawbacks to the method, eg the broad spread of countries delivering materials or delays to packaging. Some pointed out that other factors needed to be considered, eg what would be the contribution from the order, might SFDL gain further additional orders, would current orders be affected etc.

Teacher’s Tip – Yet again please remind your candidates of **The Golden Rule of Examinations** – always answer the question set, not the question they would like to be set!!

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- (c) Answers to this part of the question were generally good. There were plenty of clues given in the case study about quality and SFDL, after all it produces a food product. Good candidates also brought into their answers legal elements, eg food safety and labelling regulations. There were some good examples of top level answers discussing a wide range of factors and then demonstrating evaluation by stating just how important quality was to this particular business, given the nature of the product, the demands of consumers, the law and also the competitive market in which SFDL operates. However, again some candidates spotted the word 'quality' in the question and then proceeded to write at length about methods of improving quality at SFDL.

2878: Business Project

Introduction

A large number of the submissions for the summer 2007 series were from experienced Centres in which candidates were looking for a better mark than was achieved in January. The majority of these were mid-range or, indeed, weak the first time round and the objective was to achieve a significantly better mark. Some, however, scored well last time and have seen the Business Report as the vehicle through which they were most likely to gain any extra marks which they needed for aggregation.

It is not surprising, in these circumstances, that some candidates worked well on improvements and revisions and provided us with a significant number of top grades.

However, not all modifications are for the better. Many candidates seem to have made virtually no improvement to the work submitted and some, in fact, produced poorer work because the changes they made resulted in a less coherent or less well structured report.

The Projects This Time

All the weaknesses observed in past projects were again present but by far the greatest contributions to poor results come from five features.

- Failure to ensure that a problem capable of investigation and solution has been selected. This is often because the problem is too big to tackle, too unrealistic or not appropriate for the environment in which the candidate has chosen to work. Feasibility studies present candidates with a particular problem; they often have no association with an organisation and therefore no practical business link. This difficulty is compounded by the fact that such a problem is far too big to be manageable - its solution requires in depth study of every aspect of business structure, formation, location and marketing. It is far better for candidates to choose just one aspect of this problem.
- Failure to research and describe the problem sufficiently well to enable a sensible set of objectives and a sound methodology to be developed. This most often applies to motivation problems where it is essential to demonstrate there is poor motivation, that there is a business based reason to improve it and that the causes of it can be identified and dealt with.
- Failures of research. The most common of these arise from poor understanding of what is really the problem. For example, increasing sales is usually a matter of finding new customers, new segments or new products rather than chasing customers who have been lost. Equally labour turnover is only a problem among full time employees and only capable of analysis if you know basic employment facts about the people who have left.
- Failure to realise that this is an A2 examination and that what is known, though crucial to the solution, is not the point of the exercise. What matters is the use which is made of knowledge and the critical understanding shown in the process. Projects have frequently contained chapters of business theory for which no relevant applications have been found. Common among these were motivation theory, marketing mix theory, SWOT and ratio analysis.
- Management failures by candidates. These include:
 - a failure to spend enough time on the early stages;
 - insufficient collection of evidence, especially sample size and structure;
 - using evidence with insufficient rigour to convince. The good candidate shows an understanding that solutions must be both achievable and realistic, and that costs and benefits must be balanced.

The Marking

By and large marking is now a well developed skill and few changes are necessary. But there are always some. It is a difficult task to assess candidates taught within a Centre without having in mind what they have done in addition to what has been presented in the work and what they can achieve. The role of assessment is an objective and often harsh role. It is to assess what has been written on paper regardless of what is known about the efforts and activities of the candidate and regardless of the result the candidate is seeking.

Moderators have seen examples of awards at the higher end of the scale which have not been merited by the work. Equally, they have seen situations in which poorer work has been treated more harshly than it merits. But it is a pleasure to report that in most instances no changes have been necessary and in many other instances those changes which have been made have been minor.

The lessons which can be learnt from the process this time include:

- the need to recognise that problem definition is crucial and that it has to be sufficient to really define the problem and the context if it is to justify a high mark on Criterion 1;
- setting objectives and explaining them, however well, is a low level achievement on Criterion 2. Level 3 requires the use of the framework of objectives in the process of problem solving and reporting and Level 4 requires some critical understanding of that process;
- research has to be sufficient and problem focussed. Actually doing the right thing is only Level 2 at best, Level 3 requires a clear focus on the problem and its solution and Level 4 requires high quality in relation to the objectives set. A significant number of research approaches relied on invalid sampling or on samples of 20 or less and these cannot be worthy of high marks on Criterion 3 or 4;
- theory, concept and techniques all have to be there but they must be used. There were many instances of mere presentation. The habit of writing discrete sections or chapters of theory or an explanation of concept and technique almost always pads out the report without contributing to its value. Simple use at the point of need almost always achieves high Level 2 or Level 3 whilst critical and well argued use reaches Level 4 without any need for long descriptive sections;
- analysis and mere collation and presentation are often confused and good (or pretty, or computer competent) graphics are often rewarded much more highly than they deserve under Criterion 6. The focussed and competent use of a technique, a calculation or a concept is always Level 3 and where used with critical awareness, should attract Level 4;
- evaluation is often confused with justification of what the candidate has done. The real skill is in isolating a sensible (not necessarily right) solution and then convincing the reader that it is both logical and realistic. It will be a good solution and, therefore, Level 3 if there is a clear and balanced argument for it and it will be realistic and probably Level 4 if it is within the framework of business reality;
- Criteria 8 and 9 are too often assessed in a way which does not always appear to take the work, and the impression it gives, seriously. Candidates are often given an automatic and unvarying 3.3 and in many instances, a largely uncritical 5.5. Structure and good use of both business and English language are something which the candidate has time to impose upon the work and it is right that we should be very demanding in awarding marks on these criteria. A far greater use of the whole range of marks here should not pose any real problems.

Administration

Administration is complex and detailed but that is in the nature of the unit. Errors here cause time and work problems well beyond their significance in the situation. Too often we do not get one or more of the small but crucial things right when with a little care everything would go well.

- It is important that moderators can see why a mark under each criterion has been awarded. It helps the process of trying to find reasons why Moderators can agree with the original mark. Please be as helpful as possible in commenting on each mark given.
- The Centre Authentication Form (CCS160) is an absolute requirement, yet considerable time has been spent by moderators obtaining these forms from some Centres.
- Moderators must be able to read the marks for each candidate and each candidate's details with absolute certainty. Please make sure that everything is totally legible before sending mark sheets to Moderators.
- Moderators must know who marked each piece of work. They have to be sure that internal moderation has effectively taken place by sampling equally from the marking of each assessor involved.

Conclusion

Many of the problems with poorer work come from what the candidates set out to do and how they go about it. This is why the Board has a system of pre-checking based on summaries of their intentions sent in by candidates. The exercise itself, when it is done well, is valuable. Getting the advice of an experienced Moderator in addition to this provides a good base from which candidates can proceed with greater confidence. Experience has shown that sending in these summaries can make a very big difference - try it.

2879: Business Thematic Enquiry

Introduction

The Business Thematic Enquiry (The Theme) is an alternative to the Business Project. This means that it must be assessed using the same criteria and this is what the examiners do. This relationship means that the requirements of 2879 should mirror the tasks and opportunities which are commonly undertaken as a Business Project.

The essence of the Business Project is that the candidate identifies a situation in which a decision has to be made and then sets out to make that decision. Such a decision may be about which of a choice of strategies to adopt or it may be about the wisdom of making a particular decision.

For summer 2007, within the general theme of seasonality and its problems, candidates were required to report upon the wisdom of adopting a particular strategy. This was associated with the investment appraisal of a survival plan designed to solve the seasonality problem within a failing holiday camp.

Although possible problems were envisaged, it is very pleasing that candidates handled the situation exceedingly well and produced an overall result which is, in many ways, better than has been produced in recent series. There appear to have been very few time problems demonstrated in the reports, however, there was evidence of poor time management. This was crucial because it meant that some candidates did not have sufficient time to address the question posed and make a direct recommendation. The instances of poor time management included:

- insufficient time devoted to reading the case. This was evident in confusions between HOP and the East Coast camp, and misreading of the figures in the case;
- too much time devoted to plans which included argument which should have been in the report and not the plan;
- too much time devoted to the important but non-core issues of the human relations problem or marketing;
- too much time devoted to solutions other than the one about which they were asked to make a judgement. This sometimes included the introduction of solutions about which there was no evidence at all in the case.

Candidate Response

In The Plan

The only weaknesses which the team encountered within the plans were the same weaknesses which are seen series after series. Nearly all candidates produced a plan worth at least two marks on Criterion 1 and more than usual earned the full five marks on that criterion. The poorer plans demonstrated the following weaknesses:

- the four sub-tasks were not specifically undertaken. The commonest weakness was to say nothing at all about the context. This was not because it was difficult to see a context since many candidates wrote well and at length about a number of contextual issues;
- there were fewer candidates who wrote objectives which were about the firm rather than the report and fewer who confused objectives with methods. But there were a number of candidates who wrote pre-learnt objectives and, as a result, did not focus what they intended to do on the question posed. Fortunately, most of these candidates rectified this when writing the report. The lesson from this is that we expect objectives to be focussed rather than pre-learnt and simply reproduced from memory;

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- some candidates spent far too long on assumptions - 21 of them was the most I saw, but seven/eight were common. Some made assumptions such as 'assume the finance will be available' or 'assume the figures in the case are correct' and then spent much of the time arguing about where the finance would come from or arguing with the figures. The point of assumptions is to help the candidate to limit the framework within which the report will be written;
- once a plan is written it is usually wisest to follow it!

In The Report

There were still a small number of candidates who wrote extended essays rather than reports or, who forgot report structure after the early stages. They, therefore, limited the mark available to them on Criterion 8. There were also some candidates who spent far too much of the time discussing the procedure to be adopted. It did not cost them marks but it did cost them time.

Evidence should be drawn largely from the case and some candidates forgot this, spending a lot of the available time on outside research. Mostly this was lengthily described often without any concern for its validity to the question which had been asked. There were some candidates who spent so long on this that they got to the core issue either just before or even within the conclusion. Outside research is to be encouraged, but it must be used by focussing it on the question which has been asked in the paper.

Lest the above comments should appear to reject outside research, let me make it clear that there were some excellent answers using it. A combination of what had been found on the Internet and of visits to holiday camps was occasionally very well used indeed.

Among the theory used to write the report was SWOT, The Boston Matrix, Ansoff's Matrix and a wide range of marketing and human resource theory and concept. Almost all of it was well used and gained reward.

More disappointing, but not surprising, was the number of candidates who produced their report without presenting or referring to a single figure. Instead phrases like "a lot of", "a great amount" or "too much" were used to describe both the expenditure and the income.

Some candidates concentrated only on the costs with no mention at all of the income. Others thought the £10,000 daily spending estimate which Seema had decided to ignore was the income. The other common mistake was to lump together the set up costs and the running costs and look only at that total.

But there were some good arguments which balanced the two and appreciated the significance of the two thirds occupancy basis of the estimates. These candidates were able to argue well about the margin for error which was apparent in the situation. Those who were able to see this as an investment appraisal and write sensibly about either payback or ARR were fewer in number than the examiners would have liked.

Of course it was perfectly possible to argue either way on this issue and it was the skills shown in the process which the examiners were assessing and not the recommendation(s) made. But there were some unwise bases for the reports we read. Among them were ones which:

- never addressed the question posed and wrote about a wide range of ways of surviving. Some of these came from external research and there was no evidence for them in the case;
- rejected the question posed as one of their assumptions in the plan or, in the early part of the report without discussion;
- were so concerned with the HR (mostly) and marketing (occasionally) aspects that they never got round to a recommendation relating to Seema's proposal.

Conclusion

There were so many issues to consider in this case that it provided all but a few candidates with a rich and varied basis for use of their subject knowledge, for external research and for analysis. Many took this opportunity very well indeed with some of the best answers examiners have read in this unit. Well argued points, not a massive number, was what was required. It had been decided, however, that the good answer could be one either based on depth of argument over a few crucial issues or on breadth of argument over a larger number. We had expected that most would see not only the need to solve the HR problem but also the factors which had arguably caused it. The better candidates did so and showed an appreciation of the extent to which a full time job and greater job security would go a long way to solve it. Examiners expected that many candidates would also see the marketing imperative since this was an entirely new venture for a business with a poor image. Fewer did respond in this way. There were, however, some good answers along those lines which argued well about the risk involved in the venture and the need for some very effective marketing in order to be successful.

As has usually been the case, those candidates who took the time to write a good plan and kept their eye on the central question always did well and that is the crucial lesson for this unit.

2880: Business Strategy

General Comments

This is the first time a holiday company has been used for an OCR Business Strategy paper. It is clear from the improved quality of candidate answers it is context with which they felt comfortable and so most were able to write with accuracy and focus. An observation made at this series by the examining team is that candidates are now writing less, yet achieving higher marks. This is a pleasing combination for all. Given the marking approach used, there is no requirement to write a lot. Indeed, many of the better answers seen were those which addressed the questions from the start, kept strictly focused upon it and offered a concluding summary.

There was no evidence of candidates suffering unduly from time pressures. The quality of written communication remains a concern simply because not all candidates are either willing or able to use language appropriately. Similarly, the annual observation about many candidates refusing to use number in support of their arguments has to be made.

It is appreciated that this comment is now boring, but until such time as calculations become the norm it will be continued to be made. By way of illustration, in answer to Question 3, many candidates identified from the case the potential for cost savings as a positive reason to acquire Karma Cruising (knowledge). Average candidates used the figure in the case, 8% (application). The better ones calculated this to be £904,320 (analysis). The very best then said that, as this saving increases pre-tax profits by 44%, it is a significant sum and so a very strong reason for the acquisition (evaluation).

As was the case last summer, there was some confusion in a minority of candidates' minds between 'outsourcing' and 'relocation'.

Comments on Individual Questions

- 1 Many candidates scored well on this question simply because they recognised that BBY's market is atypical. It was often successfully argued that because BBY's target market is net savers both would actually benefit from an increase in interest rates.

Some candidates used this as evidence to suggest that BBY's £150m target would become even more readily achievable (given the sales growth between 2005 and 2006, many argued that the £150m target would be reached unless there was significant external environmental change).

Some candidates linked the rise in interest rates to an appreciation of sterling and again suggested that this would be benefit to BBY. Further, being zero geared, BBY would face no immediate internal costs pressures.

The very best candidates did recognise that although this may be true for BBY, many of its suppliers may face cost pressures and, as such, seek to pass these additional costs onto their customers. Suppliers' higher prices would, therefore, cause pressure on BBY's margins, so impacting upon the ROE target (which had already been exceeded in 2006).

Teacher's Tip – Use the context of the case and the available evidence to support your reasoning.

There were many routes into evaluation. One which was commonly seen was to argue that the impact of interest rates would depend upon the size of the rise. Hence, a slight rise may have little impact; whilst a significant rise, because it increases the opportunity cost of spending, would have greater impact.

A second route was to look at the time scale. So, some candidates suggested that being “the holiday of a life time” the market may well simply ignore interest rates in the short run. Similarly, because holidays are often booked months in advance a rise in interest rates would have little short term impact because the market is already committed to the purchase.

- 2 This question, possibly more than any other on recent questions in this examination unit, illustrates the need to read the question with great care. Good candidates did this and so wrote about different stakeholders. The less good simply wrote about whether they, as a candidate, thought the decision was a good one.

Clearly the decision had been subject to discussion prior to the examination and so candidates felt they understood the situation. Nonetheless, the need to answer the question set remains an absolute requirement for examination success.

Teacher’s Tip – Read the question, answer the question!

What case evidence to use remains the prerogative of the candidate, but despite this the examining team were surprised that many simply ignored a key item; the decision tree. Those candidates that did use the tree fell into two types. The first quoted data from it to identify the potential loss under different situations.

The better candidates analysed the tree to establish the expected monetary value being faced at the initial decision node (£4.96m or £5m). The tree, therefore, suggests the optimal strategy is to remain, which contrasts with the already taken decision to withdraw. This evidence can then be used to set up a route into evaluation; given the £40,000 difference between the certain loss and the expected monetary value. Is it worth the risk, both ethical and financial, of continuing?

The majority of candidates offered a paragraph on each stakeholder and sought to assess how each would see the decision. This was a sensible approach and offered a good structure to answers. Evaluation then emerged either between stakeholder groups or by considering difference within stakeholder groups. Hence, for example, employees in Tabakistan would view the decision rather differently to those based at head office in the UK.

- 3 This question was done well by the majority of candidates. There was no clear preference as to whether to acquire Karma cruising or not. . What the advice is does not actually matter because what the examiner is looking for is not a “right” answer, rather the manner in which case evidence is used by candidates to support a view.

A disappointment in some scripts was the absence of the new data in the question (the £20m asking price for Karma Cruising). Whether this omission was deliberate or an oversight cannot be said with any certainty. However, candidates need to be aware that new data can be introduced with the questions. Often this new snippet will be of considerable use in arriving at an answer.

The hope in setting the question in this way was that candidates would compare this figure, £20m, with the asset value of Karma Cruising, £10.33m, which could be calculated from the ratio and sales data in the case. From this analysis the issue then becomes what is it that Karma Cruising does which makes it have an asking price twice its asset value? In essence, candidates were being asked to consider whether Karma Cruising was good value.

Teacher's Tip – Be ready and able to use new data in the questions

Many other good approaches were seen. For example, many candidates argued the absence of strategic fit between BBY and Karma Cruising, whilst others held that, with a major objective of floatation on the horizon, now was not the time to embark on a strategic acquisition which would almost certainly require considerable managerial attention. Similarly, Ansoff's Matrix was often employed as an analytical tool to help make sense of the situation. That Karma Cruising had not filed 2006 accounts was seen by many candidates to be a clear indication of trouble and this alone was used to justify the decision not to buy it.

As was stated in the introduction, better candidates got the calculator out and sought to quantify the saving achieved through the acquisition. With savings of a little over £0.9m and an asking price of £20m it is easy to suggest a Pay Back Period of 22.1 years and an ARR of 4.5%. Neither value is attractive. Similarly, if Karma Cruising's ROCE and profit margins are inferior to BBY's, which they are, then combining the two business would cause BBY's ratios to decline. This decline in key financial indicators is in marked contrast to the stated objectives.

- 4 This was a question which enabled the majority of candidates to score highly. Indeed, for many it was the highest mark on the script. However, there were two significant errors. The first was the confusion between outsourcing and relocation. Those who wrote from the standpoint of BBY setting up its own call centre in Cape Town had great difficulty in offering a convincing and accurate answer.

Teacher's Tip – Use the pre-issue time to make sure you understand all of the case vocabulary

A confusion for the minority was the view that outsourcing to Cape Town would increase the cost to the customer when phoning BBY. Similarly, it would be for TBT to train staff, not BBY.

The second error was the treatment of staff costs. In the case it says that TBT claims a 50% saving in "staff costs"; yet these costs would only apply to the staff being outsourced, ie those on the "flag floor". Hence, the wage saving is 50% of 50 staff at £16,000 pa, ie £400,000 pa, or perhaps a little more if "on costs" such as National Insurance are added. This saving is very different to the 50% of employment costs if incorrectly taken from the profit and loss account, £3.34m. Note, it is the call centre which is being outsourced, not the "...169 full time staff engaged in non-sales roles".

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Having achieved an accurate cost saving, better candidates then related this value to BBY. Thus, the saving is 0.3% of 2006 turnover, or 19.5% of profit. Alternatively, if outsourcing causes sales to fall, and with it gross profit, then just a 3% fall in gross profit is enough to wipe out the benefits of cost savings. What the business then has to ask itself is what is the likelihood the market's reaction will be negative, and if so by how much might sales fall? Given the market is described as being middle-aged and conservative a fall in sales is more than possible.

Other decent points were similarly raised; for example, the potential impact on the morale of the remaining core staff. Also, recent real examples of UK based businesses bringing call centre operations back to the UK were used in justification of not outsourcing. Many made issues of accented English and the negative impact this may have on potential customers.

The best candidates analysed the cost savings, compared this to the performance of the business and recognised the "flag floor" is BBY's distinctive competence, or USP. The majority of these candidates then held that outsourcing to save £400,000 was simply not worth the risk.

**Advanced GCE (Subject) (3811/7811)
Summer 2007 Assessment Series**

Unit Threshold Marks

Unit		Maximum Mark	a	b	c	d	e	u
2871	Raw	45	34	31	28	25	23	0
	UMS	90	72	63	54	45	36	0
2872	Raw	45	27	24	21	18	16	0
	UMS	90	72	63	54	45	36	0
2873	Raw	60	39	34	30	26	22	0
	UMS	120	96	84	72	60	48	0
2874	Raw	60	37	33	30	27	24	0
	UMS	90	72	63	54	45	36	0
2875	Raw	60	43	38	33	28	24	0
	UMS	90	72	63	54	45	36	0
2876	Raw	60	43	39	35	32	29	0
	UMS	90	72	63	54	45	36	0
2877	Raw	60	38	34	30	27	24	0
	UMS	90	72	63	54	45	36	0
2878	Raw	90	72	63	54	46	38	0
	UMS	90	72	63	54	45	36	0
2879	Raw	90	68	62	56	50	44	0
	UMS	90	72	63	54	45	36	0
2880	Raw	80	59	53	47	41	36	0
	UMS	120	96	84	72	60	48	0

Specification Aggregation Results

Overall threshold marks in UMS (ie after conversion of raw marks to uniform marks)

	Maximum Mark	A	B	C	D	E	U
3811	300	240	210	180	150	120	0
7811	600	480	420	360	300	240	0

Reports on the Units taken in June 2007

The cumulative percentage of candidates awarded each grade was as follows:

	A	B	C	D	E	U	Total Number of Candidates
3811	10.7	28.6	51.9	72.6	87.2	100	6784
7811	12.4	40.3	70.5	91.0	98.6	100	4999

11783 candidates aggregated this series

For a description of how UMS marks are calculated see;
http://www.ocr.org.uk/exam_system/understand_ums.html

Statistics are correct at the time of publication

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