

## **Business Studies**

Advanced GCE A2 7811

Advanced Subsidiary GCE AS 3811

# **Mark Scheme for the Components**

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### Advanced Subsidiary GCE Business Studies (3811)

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# Mark Scheme 2871 Businesses, their Objectives and Environment

- 1 “We all have some responsibility for the current situation ... as a board of directors.” (lines 83-84)  
Outline two functions of a board of directors. [4]

A board:

- *is elected by shareholders to decide on company policy and to run the company on their behalf;*
- *makes the ‘big’/main/important decisions, eg closure of factory/relocation;*
- *provides the necessary ‘vision’ for the company’s long term survival;*
- *decides on corporate strategy/sets strategic objectives – accept – “direction of company”, etc;*
- *monitors overall progress of the company (towards strategic objectives);*
- *approves plans/proposals from ‘lower’ managers;*
- *approves large purchases, eg of new plant/offices;*
- *sets the culture of the business;*
- *prepares the Report and Accounts (for the shareholders);*
- *is legally ‘answerable’/responsible to the shareholders for their actions etc;*
- *any other valid suggestion.*

<b>Level 2</b>	Outlines/explains function(s) of board eg through valid examples	<b>(4-3)</b>
<b>Level 1</b>	Defines/states function(s) of board.	<b>(2-1)</b>

- 2 Discuss how the closure of two of the stores (lines 14-15) might affect STL's stakeholders. [14]

**Employees.** Those at the stores will lose their jobs unless they are needed in one of the other shops. In line 16 it says "many of whom are in their late 50s", so would they be retiring soon anyway? Would a 'leaner/fitter' STL mean that jobs in the other stores are now more secure? Even if so, it may upset employee morale due to the "maybe I'm next" syndrome. Effect of this?

**Suppliers.** Those supplying toys, etc. to the two shops will be adversely affected but if (!) the finance from closing them is used in a successful diversification then a ('true stakeholder?') relationship with new suppliers (ie benefits from a long term relationship) could be established.

**Customers.** Will they actually suffer? Lines 14-15 and 44 suggest that the stores are uncompetitive and the fact that they are unprofitable implies the amount spent by customers is falling.

**Shareholders.** If the funds from the sale are put into the diversification, then it may be some years before the benefits in terms of increased dividends come through. If the diversification does not go ahead then the lack of this 'drain' on the company should improve financial results and, therefore, dividends. In either case, it is difficult to discuss rises/falls in the share price as this is a private limited company.

**Local community.** The job losses will not be major in terms of numbers and so any 'multiplier effect' will be very small. The shops do not seem popular and so most customers/potential customers are unlikely to be disaffected.

NB Allow reference to any other valid stakeholder(s) eg the government, competitors, etc.

<b>Level 4</b>	Some evaluation of the impact on STL's stakeholder(s).	<b>(14-11)</b>
<b>Level 3</b>	Some analysis of impact on STL's stakeholder(s).	<b>(10-7)</b>
<b>Level 2</b>	Some application/understanding of the issue(s).	<b>(6-4)</b>
<b>Level 1</b>	Knowledge recalled about stakeholders.	<b>(3-1)</b>

3 State two differences between a tactical and a strategic objective. [2]

	<b><i>Tactical</i></b>	<b><i>Strategic</i></b>
<i>Time period involved</i>	<i>Short/medium</i>	<i>Long</i>
<i>Ability to change once set</i>	<i>Easy</i>	<i>Difficult</i>
<i>Nature of objective</i>	<i>Routine/everyday</i>	<i>Non-routine</i>
<i>Set/implemented by</i>	<i>Junior/middle managers</i>	<i>Senior managers/directors</i>

*NB Difference needs to be evident for a mark to be awarded.*

2 x 1 mark **(2)**

- 4 “Our strategic and tactical objectives have been too vague for too long ...” (line 82). Analyse how STL could use a SWOT analysis to improve the setting of its objectives. [9]

A SWOT analysis is basically an audit which is undertaken so that a business can identify its desired direction in the future. Strengths and weaknesses arise internally from factors over which STL has some degree of control. Opportunities and Threats come from external influences over which STL has no control. STL’s objectives need to be **Specific, Measurable, Achievable, Relevant, and Time limited**. They are more likely to meet this framework if a SWOT analysis is undertaken.

A SWOT analysis could mean a consideration of:

- **(Trends in) the market.** Market opportunities can be exploited. This could lead to STL diversifying.
- **The behaviour of STL’s competitors** – this threat will help set objectives that are achievable in the context of the competition. Eg it could lead to setting of a unique selling point or other marketing objective (detailed knowledge not required on 2871);
- **STL’s suppliers** – and potential suppliers in the light of Paul’s proposed diversification. Achievable objectives can be set in the light of the capabilities of STL’s suppliers;
- **Demographic changes.** As population changes this creates a threat/opportunity. STL could set objectives that are achievable and time limited (children grow up!) in the context of its target population. STL would be in a better position to respond to demographic changes and set appropriate objectives relating to products and prices if it is known what the impending changes actually are!
- **“The future”** (eg of the economy) – It will be better for the board of STL to see a problem coming than to react to it. Eg if a general rise in interest rates is predicted over the next year (a threat) then relevant objectives relating to maintaining market share or maintaining profit levels can be set;
- Any other valid suggestion.

Accept references to any aspect of the setting of objectives at STL; strategic or tactical.

<b>Level 3</b>	Some analysis of the use/limitations of SWOT linked to setting objective(s) at STL.	<b>(9-8)</b>
<b>Level 2</b>	Some application/understanding of issues relating to the use of a SWOT analysis.	<b>(7-4)</b>
<b>Level 1</b>	Knowledge of SWOT analysis or/and objectives.	<b>(3-1)</b>

- 5 Assume that Paul is able to convince Stefan and Helen to diversify into outdoor sportswear. Evaluate the influences that will determine whether STL is successful in the outdoor sportswear market. [14]

Candidates could answer from sections 5 and 6 of the specification and/or Section 1 (“What businesses need”).

**Even though he has persuaded them, Paul must try to ‘keep them with him’** – with only 20% of the votes, he alone cannot control the direction of the company. With them ‘on side’ they would have 60% of the votes and it would not matter whether Camilla and Gary ever voted against them. However, if Stefan and Helen change their minds and ‘turn against him’ this would change the situation.

**The co-operation and enthusiasm of the other shop managers** - see line 44 about the last time an initiative (the computer games) was tried. NB if Paul is also successful in closing the two stores, then how will this affect the remaining managers’ enthusiasm?

**The prices STL charges** to sell (and hire) compared to competitors.

**Competitors’ actions** – presumably existing local businesses are not going to ‘stand idle’ while STL takes their market share away.

**Sufficient finance** – to buy the stock.

**Will the sale of these products be mostly on credit?** Any cash flow implications? (detailed knowledge not required 2871).

**Marketing** (detailed knowledge not required 2871) – of the new products.

**A clear business plan** – with SMART objectives for directors, managers and staff to follow.

**Whether deals with local schools can be struck** -who will organise this?

**Reliable suppliers** – will the aim be to treat them as ‘stakeholders’ to build up a long term relationship or just as ‘suppliers’ in which case there may be problems if goods are needed at short notice.

**The state of the economy** – to what extent are these products going to be affected by the economic cycle?

**The effect of any changes in interest rate/tax** – to what extent is the demands for these products going to be affected?

**Fashion changes or changes due to fabric technology becoming more advanced** – there may be stock control issues (detailed knowledge not required on 2871).

**How satisfactory is the data in Fig. 1?** It is hardly detailed! Presumably more market research will be needed. (detailed knowledge not required on 2871).

<b>Level 4</b>	Some evaluation of the influence(s) on STL’s diversification into outdoor sportswear.	<b>(14-11)</b>
<b>Level 3</b>	Some analysis of the influence(s) on STL’s diversification into outdoor sportswear.	<b>(10-7)</b>
<b>Level 2</b>	Some application/understanding of the issue(s).	<b>(6-4)</b>
<b>Level 1</b>	Knowledge recalled about influences on a business/diversification.	<b>(3-1)</b>



## Mark Scheme 2872 Business Decisions

- 1 Outline two investment appraisal techniques that Arla Foods plc have used in the decision to invest in the 'Super Dairy'. [4 marks]

- Payback
- ARR
- Any other relevant investment appraisal technique

<b>Level 2</b>	Investment appraisal technique(s) explained/applied to the business.	<b>(4-3)</b>
<b>Level 1</b>	One or two types of investment appraisal techniques stated.	<b>(2-1)</b>

- 2 Discuss the advantages and disadvantages of Arla Foods plc's production methods. [10 marks]

*Consideration of the advantages and disadvantages of the production methods used by Arla. Discussion relating to batch and flow production as the business uses modern production lines but is still able to produce different batches of products while keeping the production line going. Consideration of the extent to which the production method has batch/flow characteristics:*

*Batch production – the work for any task is divided into parts or operations. Each operation is completed through the whole batch before the next operation is performed. This allows for some specialisation of labour and reduction in capital expenditure. However careful planning is needed to ensure that resources are not left idle and that stocks are not building up as they wait to go onto the next part of the process.*

*Flow production – a continuous process, thus eliminating the problem of rest/idle production/batch queuing. It is more automated thus reducing the need for labour skills. However, it requires a constant level of demand and standardised products/tasks with materials delivered on time. Need for quality to be maintained at all stages.*

<b>Level 4</b>	Evaluation by weighing up the advantages and disadvantages of the production methods used by Arla.	<b>(10-9)</b>
<b>Level 3</b>	Analysis demonstrated by considering implications for Arla of the advantages and disadvantages identified.	<b>(8-5)</b>
<b>Level 2</b>	Understanding of concepts involved demonstrated.	<b>(4-3)</b>
<b>Level 1</b>	Appropriate concepts and issues identified.	<b>(2-1)</b>

- 3 (a) Calculate the percentage increase in sales of Cravendale milk between 2004 and 2005. [5 marks]

$$2004 \text{ Sales} = £2,000m \times 3\% = £60m$$

[1] for process plus [1] for answer

$$\text{Percentage change in sales} = \frac{\text{Increase in sales}}{\text{Sales in 2004}}$$

$$= \frac{£64 - £60m \times 100}{£60m} = \frac{£4m \times 100}{£60m}$$

[1] for process plus [1] for answer

$$\text{Percentage change in sales} = 6.67\% \text{ [1] for answer}$$

NB Apply own figure rule as appropriate

- (b) Cravendale milk is approaching the maturity stage of its product life cycle. Discuss the marketing implications of this for Arla Foods plc. [12 marks]

Some understanding of the stages of the product life cycle in relation to the Cravendale milk product. Consideration of to what extent Cravendale has reached the maturity stages of its product life cycle. Cravendale was the first branded milk to enter the market in 1998. Sales grew by 6.67% (OFR) between 2004 and 2005. What marketing activities would support this growth? Is the product still in growth? Has the product reached maturity? Now the number one milk brand. Gaining penetration among its core audience of mums with children. 'Hint Of' flavoured white milks, mini milk bottles – are these extension strategies to the maturity stage or growth strategies? These products are aimed at new target markets eg the 'on the go' market. Use of TV to promote these products. Some discussion of other promotional methods and also pricing policies appropriate to the stage in the product life cycle identified. Will these new products be distributed in the same way? Also consideration of promoting these products to supermarkets. NB Candidates must address the product life cycle. Discussion of Boston Matrix without reference to the product life cycle is not rewardable.

<b>Level 4</b>	Evaluation of the marketing implications of Cravendale milk's stage in the product life cycle.	<b>(12-10)</b>
<b>Level 3</b>	Analysis demonstrated by considering the implications of the marketing implications of Cravendale milk's stage in the product life cycle.	<b>(9-7)</b>
<b>Level 2</b>	Understanding of the marketing implications of the product life cycle demonstrated.	<b>(6-4)</b>
<b>Level 1</b>	Appropriate concepts and issues identified.	<b>(3-1)</b>

**4 Evaluate Arla Foods plc's non-financial methods of motivating its staff. [12 marks]**

*Non financial motivation seems to be very strong. Examples include:*

- *ability to gain promotion;*
- *team culture;*
- *job enrichment;*
- *training opportunities;*
- *friendly and open environment meeting social needs.*

*Use of motivational theories to underpin the discussion. Some consideration as to whether these are more important than financial reward. Both these extracts are from managers who may be relatively well paid. Would workers at lower levels in the organisation have the same view?*

<b>Level 4</b>	Evaluation of the non financial motivational methods and their relative importance.	<b>(12-10)</b>
<b>Level 3</b>	Analysis demonstrated by considering the implications of non financial motivational methods in context.	<b>(9-7)</b>
<b>Level 2</b>	Understanding of concepts involved demonstrated.	<b>(6-4)</b>
<b>Level 1</b>	Appropriate concepts and issues identified.	<b>(3-1)</b>

## Mark Scheme 2873 Business Behaviour

- 1 a) (i) Calculate the average number of frames produced per day in week 2. (2)

$$\text{Total frames produced in week 2} = 50 \quad [1]$$

$$\begin{aligned} \text{Average number of frames} &= 50/5 \\ &= \underline{10} \quad [1] \end{aligned}$$

(Correct answer with no working out= 2 marks)

- (ii) LGL assumes the maximum capacity of the framing machine is 16 frames per day. Calculate the capacity utilisation of the framing machine in week 2. (4)

$$\text{Capacity Utilisation} = \frac{\text{Actual Output}}{\text{Maximum Output}} \quad [1]$$

$$= \frac{10}{16} \quad \text{or} \quad \frac{50}{80} \quad [1]$$

$$= 0.625 \quad [1]$$

$$= \underline{62.5\%} \quad [1]$$

Accept 63%

(Correct answer with no working out= 4 marks)

OFR

- (b) Discuss the implications for LGL of operating its factories at below 100% capacity utilisation (10)

There are positive and negative implications for a business operating below full capacity. Benefits include:

- Less stress on the workforce - this may be important for LGL as it employs more elderly workers who may be less able to cope with a hectic working environment
- Slower production rates may allow workers to be more conscious of quality. Given that we are told there is only a 2mm tolerance in producing the windows and doors, this is more important for LGL than businesses in some other industries. Also, the purchase of double glazing is a relatively expensive one for most households. They will expect a high level of quality when spending thousands of pounds.
- Lower capacity utilisation levels allow regular maintenance to take place. Again, this is vital given the accuracy needed from the machinery.

There are however disadvantages of low capacity utilisation. They include:

- Average costs will be higher as the fixed costs are not being allocated over a large enough level of output. The double-glazing industry is highly competitive and price is significant factor in the marketing mix. We are told that LGL is

*looking to expand at present and this will be restricted by high costs which affect retained profit and/or price of its products.*

- *As workers are paid a bonus based on company performance, lower efficiency will impact on the size of the bonus payable to the workers.*
- *The low levels of capacity utilisation mean that work may 'stack up'. This leads to some days needing a much higher level of output to catch up. This can be seen in Table 1 where on some days output is above 100%. This has implications for cost (overtime), stress levels and quality.*

*Candidates may argue that given this firm's financial situation, with a pre-tax profit margin of over 6%, no debt and a healthy cash flow there is limited cause for concern. However, given the increasing competitiveness of this industry and the plans for future growth, it would be beneficial to see an improvement in LGL's capacity utilisation. But, at what cost for the business - both quantitatively and qualitatively?*

**ARA**

<b>Level 4</b>	Some evaluation shown by questioning the real impact on LGL of operating below full capacity, possibly weighing up the overall pros and cons for LGL.	<b>(10-9)</b>
<b>Level 3</b>	Some analysis of the implications of operating below full capacity for LGL.	<b>(8-6)</b>
<b>Level 2</b>	Some understanding shown of how operating below full capacity affects LGL.	<b>(5-4)</b>
<b>Level 1</b>	Some knowledge of capacity and/or capacity utilisation. Correct statements about the implications of operating below capacity.	<b>(3-1)</b>

2 Evaluate the advantages and disadvantages for LGL of allowing most of its staff to stay with the company after the age of 65. (16)

*An ageing population will mean that companies have to employ older workers. There are advantages and disadvantages to this.*

**Advantages:**

*With an ageing population, customer facing organisations need to employ older workers to better reflect the markets they serve. In an industry such as double glazing where customer focus and customer service are so important, older staff have been found to be better at providing this necessary level of service. They are more trusted by customers. Older workers may be more conscious of providing the ethical caring culture which LGL is famous for. Also, the customers are likely to be relatively older, due to the nature of double glazing as a product and its high price. These customers may be happier dealing with older sales staff.*

*On the production floor, older staff may have greater patience and care for detail which is vital for LGL when producing its windows and doors. We are told of the low tolerance rates in the production process and maybe older workers will be better at achieving this.*

*Labour turnover tends to be lower amongst middle-aged and older staff. This will reduce the recruitment costs for LGL and may be significant in such a competitive industry.*

*Simply, as the ageing demographics continue, LGL is going to find it more difficult to fill vacancies and so will benefit from retaining the workers it already has.*

**Disadvantages:**

*Older workers tend to be less accepting of change. This is best shown in their attitudes towards new ideas and new technology. Billie Davies' problem in contacting the ageing sales force is a good example of this. David Piper is not making use of the mobile phone and computer which have been provided for him by LGL. This is a fast moving, customer-focused industry which relies on high standards of customer service and this includes communicating with them efficiently. It is apparent from the case that if David is representative of the other sales staff at LGL, they are not working and communicating as efficiently as they could be.*

*However, training and support is critical to ensure that older workers continue to work effectively. It is well known that older staff usually participate less in training programmes and so it is vital that LGL offers the necessary advice, training and support to older staff if it introduces new working practices or equipment. The management at LGL must appreciate that this is an additional requirement of employing older staff. This may mean that training costs per person will be higher for LGL as a result of employing older staff.*

*Another problem with older staff is usually higher levels of absence caused by illness. This may put additional pressure on the business, especially as its capacity utilisation already appears to be a cause for concern. The issue of extended winter time leave raised in the newspaper article is also something which may affect the operation of LGL.*

*Candidates who clearly weigh up the apparent advantages and disadvantages, coming to a reasoned and reasonable judgement about the sense of employing older staff should be rewarded at Level 4.*

**ARA**

<b>Level 4</b>	Some evaluation shown by attempting to discuss the overall impact, by weighing up the pros and cons for LGL's specific circumstances.	<b>(16-13)</b>
<b>Level 3</b>	Some analysis of the advantages <u>and</u> disadvantages for LGL of employing older workers. [Maximum 10 marks for a one-sided argument]	<b>(12-9)</b>
<b>Level 2</b>	Some understanding shown of how employing older staff will affect the operations of LGL.	<b>(8-5)</b>
<b>Level 1</b>	Some knowledge of how older staff differ - eg statements about how they differ from younger staff.	<b>(4-1)</b>

**3 Discuss promotional methods that LGL may use to increase sales. (16)**

*Promotion may be above or below the line, but most importantly needs to be appropriate to the internal and external conditions of the business, including finance, competition and culture.*

*One obvious area in which LGL can improve its promotion is the website. We are told that it is basically non-existent at the present time. In the modern business world, most firms have a website which allows customers to find out about its products and how to contact them. We are told in the case that competitors have much more impressive sites. It is important, that if LGL is to be taken seriously and achieve the growth it is planning, then as many people need to be able to find out about the business as possible. It currently has a market covering only a 30 mile radius of Sheffield. A website will allow them to become known over a wider area. However, there is no point attracting business from too far away as double glazing is a service which is consumed relatively locally.*

*It would be expected that a website will allow interested potential customers to find out about the range of products available, prices and how to get more details. If LGL is willing to spend more money, then some sites even allow the customer to input a picture of their house and then see the effect of changing the window design or adding a conservatory. Given William Nunn's apparent indifference to the website at the moment it may be best for Alex to suggest a more basic and, hence, cheaper site first.*

*Another significant promotional issue currently facing LGL is payment method. At present it does not offer finance packages, in fact it actively discourages them. However, it just purchased a business which has always marketed heavily the 'cheap and easy finance options' as part of the product. In fact, this is by far and away the most common approach from most firms in the double glazing industry. If LGL does not offer finance deals any more at this newly-purchased business it may seem unusual and it may lose business. Equally, having one business that offers finance and another that does not may seem strange. We do not know whether LGL is intending to operate the two firms separately or whether it will merge them into one. This is important to know before making a decision on whether to offer finance deals or not.*

*There are benefits of finance packages in that it increases the number of people who can 'afford' its product. Low or zero interest deals are a good promotional tool. If competitors offer finance then LGL may appear out of step. However, Charles Nunn, the Chairman, is very opposed to selling finance and it would be a significant change in the culture of the business. Maybe this sort of high-pressure selling is something which puts off customers and LGL has attracted its customers in the past due to the lack of it? Ultimately, it is a major change which could have serious implications for the business.*

*LGL could also consider cross-promotional schemes. For example, with the purchase of the conservatories business, LGL can offer a more complete package to customers. For example, customers who buy one product may be offered a discount on the other within a certain timescale.*

*Any decision on an appropriate promotional method will be greatly affected by which of the three options for growth LGL choose - expand its geographic area, increase market share, or offer new products to a different customer base. Candidates may rightly argue that this decision needs to be made first.*



*There are a huge number of promotional ideas which candidates may suggest. However, it is vital that any ideas are discussed clearly within the context of LGL and are relevant to a local double glazing business.*

**ARA**

<b>Level 4</b>	Some evaluation shown by assessing the likelihood of success of promotional methods discussed for LGL.	<b>(16-13)</b>
<b>Level 3</b>	Some analysis of specific promotional methods that would be appropriate to LGL and how they may or may not work for them.	<b>(12-9)</b>
<b>Level 2</b>	Some understanding shown of how promotional methods may lead to an increase in sales at LGL.	<b>(8-5)</b>
<b>Level 1</b>	Some knowledge of promotional methods.	<b>(4-1)</b>

**4 Assess the appropriateness of using break even analysis as a decision-making tool for Legacy Glazing Limited.**

**(10)**

*Break even analysis enables a firm to calculate the necessary minimum output which ensures the firm's revenue covers its total costs. Data is needed for predicted fixed and variable costs, as well as sales and price.*

*One of the major problems with all of this data is that it is typically based on historical data. Given the highly competitive and fast-moving nature of the industry that LGL finds itself in, the reliability of forecasts made using this historical data is limited. The costs of LGL will be changing on a daily basis, including labour costs, raw materials and overheads so it will be difficult to ensure that the break even data is completely up to date. However, we are told that Wendy uses computer software, so the regular updating of data will be more manageable.*

*LGL makes lots of different products, including styles of windows and doors, roofing material and even now conservatories. Break even analysis becomes more complicated and less reliable the more different products there are, as it is difficult to allocate fixed costs to each product accurately.*

*Break even analysis assumes average costs remain constant with output. This is unrealistic for a company such as LGL which will be able to negotiate bulk buying rates for its raw materials as output increases.*

*It can be argued that break even becomes an end in itself. Having a target sales figure or expected profit level to aim at may lead to 'sights being lowered'. The achievement of the target is accepted as success and may mean that further improvements over and above this target are ignored.*

**ARA**

<b>Level 4</b>	Some evaluation shown by assessing the reliability of break even analysis and/or factors that may limit it.	<b>(10-9)</b>
<b>Level 3</b>	Some analysis of the problems faced when using break even analysis to make decisions, with specific reference to the context of LGL.	<b>(8-6)</b>
<b>Level 2</b>	Some understanding of how break even may be used.	<b>(5-4)</b>
<b>Level 1</b>	Some knowledge of what break even is.	<b>(3-1)</b>

## Mark Scheme 2874 Further Marketing

- 1 (a) Analyse two ways in which market segmentation could assist Alf in meeting the needs of his customers.

*Many possible answers. Segmentation can be used in a variety of ways, such as demographic, geographic, etc. Different customers will visit the shop at different times for different products/services, etc. The key is making use of the segmented nature of customers to understand and analyse the needs of the customers. The need to consider how Alf might be assisted e.g. Changes to displays, timing of sales/special offers, nature of product range, etc. could all be considered.*

<b>Level 3</b>	Analysis of marketing segmentation in the context	<b>(6-5)</b>
<b>Level 2</b>	Application and/or understanding of market segmentation	<b>(4-3)</b>
<b>Level 1</b>	Identification of marketing segments/definition of segmentation	<b>(2-1)</b>

[6]

- (b) Using Table 1, Alf calculates that the price elasticity of demand for watch straps is – 2.5.

- (i) Calculate the price elasticity of demand for silver gem rings.

*Calculation:*

*Current price – £40*

*New price – £30*

$$\text{Percentage decrease} = \frac{10}{40} \times 100 = 25\% \quad (1)$$

*Current Demand – 20*

*New Demand – 28*

$$\text{Percentage increase} = \frac{8}{20} \times 100 = 40\% \quad (1)$$

$$\text{Elasticity is } \frac{\% \text{ change in demand}}{\% \text{ change in price}} = \frac{40}{25} (1) = -1.6 \quad (1)$$

In the absence of any other credit, (1) for formula

[4]

- (ii) Analyse two ways that an understanding of price elasticity of demand could aid Ravenscroft Jewellers in setting prices.

*Price elasticity of demand can be a useful tool which assesses how much demand is likely to change if changes are made to the price. The elasticity calculation measures the responsiveness of changes in demand to changes in price. In the case study the use of the technique is questionable. With such a wide variation in the elasticity calculations and the wide nature of products there is doubt to its use. The technique itself is flawed. The historical nature of the data and the great likelihood that other factors may influence the changes in sales behaviour. The question focuses on the positive and candidates should consider the changes that might be made to the pricing of goods dependent on varied PED calculations. This may include the ability to charge higher prices for certain goods.*

<b>Level 3</b>	Analysis of the use of PED using example(s)	<b>(6-5)</b>
<b>Level 2</b>	Application/understanding of PED	<b>(4-3)</b>
<b>Level 1</b>	Knowledge of PED	<b>(2-1)</b>

[6]

- (c) Develop and justify a pricing strategy for Ravenscroft Jewellers.

*Quite a lot of case material to draw on. Better answers may well return to the issue of segmentation and consideration of the different types of customers. Possible use of a variety of pricing methods and strategies. These could include aspects of cost plus, psychological, full cost, price discrimination and, even, skimming/penetration for new products. There should be an appreciation of the different products/services provided and the need to have a selection of pricing approaches for these services/products. The "one size fits all" approach should not be well rewarded. Evidence from Q1b might be included and used to highlight different prices that might be charged for different products. A jeweller sells a full range of products at different prices. It would be expected that different strategies might be used for different products e.g. cheaper items may well be priced psychologically, with more expensive items sold at premium prices. Reference to the examples in Table 1 might help. To reach L4, there is a need to write strategically. This involves considering the time based approach to pricing and possible objectives of such a strategy.*

<b>Level 4</b>	Evaluation of the strategy, in the context	<b>(16-10)</b>
<b>Level 3</b>	Analysis of the strategy/aspects of the strategy, in the context	<b>(9-6)</b>
<b>Level 2</b>	Application/understanding of the aspects of the strategy	<b>(5-3)</b>
<b>Level 1</b>	Identification of pricing factor(s)	<b>(2-1)</b>

[16]

- 2 (a) Discuss the advantages to Ravenscroft Jewellers of having an extensive product portfolio.

*Product portfolio relates to the range of different goods and services provided by an organisation. In the case of Ravenscroft Jewellers, there is a need to have a range of diverse products and services on offer. Better answers may well discuss aspects of the product life cycle and the need to have products at different stages in the life cycle. The Boston Matrix could also be discussed. The case study mentions a full range of products sold by Ravenscroft Jewellers and this could easily be related to different markets, different types of customers, etc. The possible changes to the marketing effort for different parts of the portfolio could be considered. The focus of the question is very much on the advantages. To reach L4, there is a need to evaluate the advantages presented. This could be achieved by prioritising the advantages.*

<b>Level 4</b>	Evaluation of the advantages of a wide product portfolio in context	<b>(10-9)</b>
<b>Level 3</b>	Analysis of the advantages of a wide portfolio in context	<b>(8-6)</b>
<b>Level 2</b>	Application/understanding of product portfolio	<b>(5-3)</b>
<b>Level 1</b>	Some knowledge of product portfolio	<b>(2-1)</b>

[10]

- (b) Advise Alf on a promotion strategy that he could use for Ravenscroft Jewellers.

*Promotion is given plenty of coverage in the case study. A promotion strategy should include elements of advertising, sales promotion, publicity and personal selling. Aspects of publicity, sponsorship and other techniques may also be relevant. Better candidates are likely to consider the type and range of products, the new products and the types of promotion already taking place. A strategic approach may well be offered by some candidates with a consideration of timescale, cost, validity of techniques, etc. The case material refers to the importance of display and personal selling. There is reference to a possible website and, more generally, below-the-line methods of promotion. To reach L4, there is a need to discuss possible strategies, prioritising the 'best' approach for Ravenscroft Jewellers. Better responses will tend to offer a range of ideas and not fix on a 'one size fits all' approach. Use of the evidence e.g. the introduction of the website should form the basis of a strong answer.*

<b>Level 4</b>	Evaluation of the strategy in context	<b>(16-10)</b>
<b>Level 3</b>	Analysis of the strategy/aspects of the strategy, in context	<b>(9-6)</b>
<b>Level 2</b>	Application/understanding of the aspects of the strategy	<b>(5-3)</b>
<b>Level 1</b>	Identification of the aspects of the strategy	<b>(2-1)</b>

[16]

## Mark Scheme 2875 Further Accounting and Finance

- 1 (a) Calculate the net profit made by SIL in 2007. [4]

*Sales in 2007 = £120m + 40% = £168m (1)*

*Direct costs = 35% Thus = £58.8m (1)*

*Overheads = £50m*

*Thus total costs = £108.8m (1)*

*Therefore net profit = sales revenue – total costs*

*£168m - £108.8m*

*Profit = £59.2m (1)*

- (b) Analyse the impact on the recorded profit of Mint Cremes if overheads were allocated as a percentage of sales value. [6]

*Total sales of the company are £168m. Sales of Mint Cremes are £35m. This represents 20.8% of value of total sales. Thus it should take this % of overheads. Overheads are £50m thus allocated overheads would be £10.4m. This represents a fall of £1.6m because under the present arrangement allocated overheads are £12m. Present profits of Mint Cremes is £10m. Thus profits of the product under the percentage overhead allocation will rise to £11.6m.*

<b>Level 3</b>	Analyses the data to demonstrate the impact of the change in context.	<b>(6-5)</b>
<b>Level 2</b>	Understands the consequences of the change.	<b>(4-3)</b>
<b>Level 1</b>	Knowledge shown of the change.	<b>(2-1)</b>

*NB candidates may also refer to impact on the products such as Strawberry Delight.*

- (c) **If Esther and Jermina chose to expand the business by building a new factory, discuss ways the business could finance this expansion.**

[10]

*The growth of the company would substantially increase its capital needs. Capital would be required for both outlay and running costs. Thus, perhaps a combination of long and short term capital may be required. The extract in Table 3 suggests that the company is already highly geared (gearing ratio calculates as Long term Liabilities / Capital Employed = 69.6% ie 80/115) and hence, substantial increases in long term debt appear to be inappropriate. Thus the company would either have to raise the capital internally (perhaps by sale/lease back and/or better use of working capital/retention of profits) or by a substantial injection of owners funds. Unlikely that the current owners able or willing to provide this, so conversion to a PLC seems most appropriate. This allied to increased short term loan facilities might seem the best way ahead. However, conversion to a public limited company might be difficult given the time deadline requirements associated with the new factory and the supermarket order. There is always the possibility that the business might be eligible for some kind of financial assistance from a development agency or something similar.*

<b>Level 4</b>	Evaluative answer which assesses the ways and generates a recommended strategy based upon analysis of consequences in context.	<b>(10-9)</b>
<b>Level 3</b>	Answer analyses ways in context.	<b>(8-6)</b>
<b>Level 2</b>	Answers shows understanding of the financial option(s) available.	<b>(5-3)</b>
<b>Level 1</b>	Answer identifies option(s)(way(s)) showing knowledge.	<b>(10-9)</b>

- (d) **Should SIL accept the provisional order from the major supermarket? Justify your answer.**

[16]

*The business should analyse this option with reference to factors such as potential profitability/feasibility/speed of implementation/long or short term implications/owners' objectives/ownership and control. The data suggests that taking the supermarket order would significantly increase the sales and profits of the business and thus it would be difficult to argue against some expansion. However, the means of achieving this have considerable implications for the long term future of the business in terms of ownership and control. If the order is taken without the expanded capacity, then the opportunity costs need to be justified. These would include an inability to satisfy the existing customer base. [Current capacity inadequate to meet existing sales plus new order sales]. Will this order be repeated in the future or is it a one off? Might the business be left with over capacity in the future? If the order is accepted because of increased capacity, then profits will definitely rise but the business' capital structure and possibility ownership will have changed. Variety of financial and non-financial issues can be identified, discussed and evaluated. The data suggests the following*

	Current	Order	Combined
Sales	£168m	£120m	£288m
Direct costs	£58.8m	£42m	£100.8m
Overheads	£50m		£87.5m
Total costs	£108.8m		£188.3m
Net profit	£59.2m		£99.7m

*Alternatively the analysis might be done as follows with the focus on the extra sales and costs associated with the order*

Supermarket sales		£120m
Direct costs	£42m	
Extra overheads	£37.5m	
Total costs		£79.5m
Extra profit		£40.5m

*The above calculations assume no growth in sales to the present customer base. It assumes that direct costs rise in line and, hence, gross margins are unchanged. (Including gross margin on the supermarket order). The order itself will not cause any change in overheads merely the increased capacity required if the business wishes to avoid opportunity costs. This all demonstrates the boost to profits which potentially exists if the growth strategy of expanding capacity is followed. Probably the whole issue rests on the ability to finance the new factory in order to allow the acceptance of the order. The feasibility of getting the factory completed and production started in such a short tie period is also a factor. Other issues such as subcontracting production to other confectionery businesses would be considered as well. This would entail quality issues/extra costs/delivery factors and so on. Without the capacity expansion the order would generate no extra profit as it would entail loss of some of the existing orders.*



<b>Level 4</b>	Evaluate answer generating advice and showing reasoned judgement in context.	<b>(16-10)</b>
<b>Level 3</b>	Analysis of decision in context.	<b>(9-6)</b>
<b>Level 2</b>	Application and understanding of issue(s) raised by decision.	<b>(5-3)</b>
<b>Level 1</b>	Knowledge of some of the issue(s) raised by decision.	<b>(2-1)</b>

- 2 (a) **Analyse the impact on the profit and loss account and balance sheet of the business if it were to change its depreciation policy.**

[6]

*Depreciation is a measure of the wearing out, consumption or other reduction in the useful economic life of a fixed asset over time. It is, therefore, a recognition of the fact that as an asset gets older its value is reduced. It thus enables the business to spread this cost over its economic life, so as to enable the accounts to give a true and fair picture of the worth of the business at a point of time. The method of depreciation will thus affect the valuation of assets on the balance sheet. It will also impact on the profit and loss account because depreciation will be shown as an imputed cost. Straight line method writes off value in equal amounts over time while the declining balance method writes off the value by a fixed percentage. Thus initially declining balance reduces value by more and, hence, reduces profit, while later the reverse happens. Total impact on profits is the same but the timing of declaration will differ. (Maintenance costs also need to be considered.)*

<b>Level 3</b>	Answer analyses the methods to demonstrate the impact on the accounts.	<b>(6-5)</b>
<b>Level 2</b>	Answer shows understanding of the differences in the methods.	<b>(4-3)</b>
<b>Level 1</b>	Answer show knowledge of the two methods.	<b>(2-1)</b>

- (b) **Justifying your recommendation, advise SIL whether to purchase either of the machines X or Y.**

[16]

*Content. The case makes it clear that the existing blending machine is causing problems and needs replacing. Thus, some action is required. The two options can be evaluated by using standard investment appraisal criteria namely pay back/average rate of return/NPV. If these criteria are deemed to be met, then on financial grounds the investment would proceed. The choice would then rest on factors such as capital cost [important if capital constraint exists] reputation of manufacturer/set up and installation costs/running costs/availability of parts/after sales service/ease of use and training costs/evaluation of the certainty of the potential cost savings. In this case the situation is further complicated by the uncertain direction that the company may proceed. Is this a good time to be investing? Can SIL afford not to? So many financial and non-financial factors to be assessed and evaluated.*

*Financial appraisal shows the following*

Year	Net cash flow	X		Y	
		DF	DCF	Net cash flow	DCF
0	-160	1	-160	-220	-220
1	+50	0.926	46.3	+70	64.82
2	+50	0.857	42.85	+70	59.99
3	+50	0.794	39.7	+70	55.58
4	+50	0.735	36.75	+70	51.45
5		0.681		+70	47.67
6		0.630		+95	59.85
	+40		+5.6	+225	+119.36

	X	Y
Pay back (years)	3.2	3.1
ARR	6.25%	17%
NPV	+5.6	+119.4

*Thus, both exceed minimum criteria but Y is clearly superior on all measures (payback so close as to be of no significance). Only financial problem with Y is capital outlay cost, which is £60000 greater than machine X.*

*Conclusion is that Y should be purchased because its financial rate of return is very attractive and far exceeds the minimum requirement of the company.*

<b>Level 4</b>	Evaluative answer resulting in recommendation based upon analysis of financial and non financial factors.	<b>(16-10)</b>
<b>Level 3</b>	Analysis of data and information.	<b>(9-6)</b>
<b>Level 2</b>	Understanding of issues.	<b>(5-3)</b>
<b>Level 1</b>	Knowledge of issues.	<b>(2-1)</b>

## Mark Scheme 2876 Further People in Organisations

- 1 (a) (i) If Bob's share of net profit were to be £3,630, calculate his potential annual remuneration in his new role as Workshop Supervisor. [4]

*Bob currently receives £480 per week. As Workshop Supervisor he would received*

$$\begin{array}{r} \text{£480} \times 52 = \text{£24,960} + 30\% = \text{£32,448} \\ (1) \qquad (1) \qquad (1) \end{array}$$

*His overall annual remuneration would be*  $\text{£32,448} + \text{£3,630} = \text{£36,078}$  (1)

*For correct answer with no workings, award 4 marks.*

*Other answers should be rewarded with appropriate marks subject to assumptions and ensuing calculations.*

- (ii) Analyse two advantages to MML of remunerating Bob by salary. [6]

*It would appear that Bob will be financially better off as a result of his remuneration package (his income would be approximately £36,078). He will be earning more, but will not be paid overtime, and as a result of him already working two hours extra with no overtime, and with a much bigger workload, MML seem to be getting more value for money from Bob than if he were to be paid by other methods, certainly in comparison to what he was paid as a mechanic in 2007, he received £28,960 as any extra work he does will not have to be paid on an hourly basis.*

*It will also make it easier for Peter to work out the potential remuneration costs for MML as he only has to incorporate Bob's salary, plus a share of net profit. This will make financial planning more straightforward and will help with manpower planning and potential future outgoings on wages and salaries. This would be much more difficult if Bob was paid by hourly wages, plus overtime of an unknown ongoing amount, or by some form of performance related means, and/or bonuses.*

<b>Level 3</b>	Candidate demonstrates analytical skills when considering the advantage(s) to MML of remunerating Bob by salary.	<b>(6-5)</b>
<b>Level 2</b>	Candidate applies relevant knowledge to the advantage(s) of paying by salary.	<b>(4-3)</b>
<b>Level 1</b>	Candidate offers theoretical knowledge relating to remuneration methods.	<b>(2-1)</b>

- (b) Discuss the appropriateness of Peter's decision to internally recruit the replacement Workshop Supervisor. [10]**

*Peter had little notice of Harry's intention to take early retirement and may have been influenced by the fact that he would find another Workshop Supervisor more quickly than he would have liked. He may have been swayed by the fact that he thought that it would be expensive and time consuming to go through the recruitment process externally. It would, however, have given him the opportunity to have a wider of potential candidates to choose from, rather than the 12 mechanics currently employed by MML, and enabled him to replace Harry with someone from outside with similar skills and experience. Whilst this may have been more time consuming and expensive, the benefits from doing so may have outweighed the costs involved. However, the case study does allude to the fact that there may be a shortage of appropriately skilled candidates in the locality and as such this may mean that internal recruitment becomes more appropriate and more necessary under the circumstances.*

*It would seem that there is an element of "the Peter principle" in the appointment of Bob to the supervisor's role. It seems that Bob, whilst being an excellent mechanic, does not have the appropriate personal characteristics, training, or management experience to carry out the role successfully, and has been promoted beyond his level of competence. It could be argued that the problems which are occurring as a result of this may be linked back to Bob's limited experience and the fact that the other mechanics seem aggrieved that Bob was appointed rather than one of them.*

*Had Peter been made aware of Harry's intentions sooner, he could have made a more informed decision about how to recruit a replacement. He seems to have been somewhat forced into seeking an internal replacement, rather than having the benefit of seeking appropriate external candidates, as well as any other internal candidates, despite the extra time, costs and administration this would have incurred. He would have been able to manage the necessary change more effectively, and could have avoided some of the problems which seem to have occurred by promoting the wrong person, who seems to be unable to cope with his new role, rather than making a more informed choice from a wider range of candidates.*

*Using a wider range of recruitment methods might have been more time consuming, but the benefits of doing this might have meant that the short, medium and long-term benefits outweigh the time and costs involved.*

<b>Level 4</b>	Candidate demonstrates evaluative skills when considering the appropriateness of appointing the new Workshop Supervisor internally.	<b>(10-9)</b>
<b>Level 3</b>	Candidate demonstrates analytical skills when considering the appropriateness of appointing the new Workshop Supervisor internally.	<b>(8-6)</b>
<b>Level 2</b>	Candidate demonstrates the ability to apply knowledge relating to recruitment.	<b>(5-3)</b>
<b>Level 1</b>	Candidate demonstrates relevant theoretical knowledge only.	<b>(2-1)</b>

- (c) To what extent might training help Bob be more effective in his new role as Workshop Supervisor?

[16]

*Bob received no training for his new role; this may be part of the reason he is struggling to cope. He is an excellent mechanic, but has no experience of management; and in order to prepare him more effectively for the new role, training would have better prepared him to deal with all the issues he is struggling with in the case study.*

*However, it would be difficult to organise appropriate training in the short time scale between Harry leaving and Bob being appointed. The only person he would be able to shadow would be Peter who has a different role in the business to Bob. It would be difficult to organise appropriate external training on such a short timescale and it would be even more difficult to arrange for Bob to spend some time in a similar business as he has already been thrown in at the deep end in his new role.*

*Perhaps Peter should have been more proactive, if he intended to promote Bob he should have given him some appropriate training sooner. This would have ensured that Bob was better prepared for the promotion, as he would have had more knowledge to draw upon to cope with his new responsibilities.*

*Whilst training can be expensive and time consuming, it would provide Bob and MML with benefits which would probably outweigh the time and costs incurred, and enable some of the problems Bob is currently facing to be eradicated/minimised.*

*However, the effectiveness of any form of training might be influenced by Bob's own attitude – if he was not interested, or proved to have insufficient ability to cope with any/all possible methods, Peter would have wasted the costs and time involved, with no potential improvement in Bob's performance.*

*If Bob was sent on a management training programme at a local college it would be very important to identify the appropriate course/level. If the programme chosen was too difficult for Bob this would mean he would struggle, and, it may de-motivate him. If the course did not provide him/MML with the knowledge and skills required, Bob would be no more effective, and the costs involved would not yield any significant improvement in Bob's ability to carry out his new role more effectively.*

<b>Level 4</b>	Candidate demonstrates evaluative skills when considering the extent to which training would have helped Bob to be more effective in his new role.	<b>(16-10)</b>
<b>Level 3</b>	Candidate demonstrates analytical skills when considering the extent to which training would have helped Bob to be more effective in his new role.	<b>(9-6)</b>
<b>Level 2</b>	Candidate demonstrates the ability to apply knowledge of training.	<b>(5-3)</b>
<b>Level 1</b>	Candidate demonstrates the ability to apply appropriate knowledge of training.	<b>(2-1)</b>

- 2 (a) Analyse two possible implications for MML of not having an up-to-date Health & Safety policy. [6]

*Firstly, it is likely that MML's employees will not be fully aware of the current H&S legislation and, as a result, may not be complying with what is legally expected of them. As a result, there may be no (or insufficient) risk assessments taking place, and hazards in the workplace are not identified or acted upon. This may be contributing to the increasing number of accidents. This could result in MML being investigated or even fined by the Health & Safety Executive for not using safe working practices.*

*It will also make it difficult for Bob to get to grips with the H & S responsibilities he has in his new supervisory role, and he will not be able to take appropriate action if he is using an out-of-date policy. This is particularly important as the case study indicates that he does not have a grasp of the finer points of H & S legislation, and will need an up-to-date policy to help him fully understand his responsibilities and tackle the problem of increasing numbers of accidents more effectively.*

*Peter is concerned about the motivation of the mechanics, the increase in the number of customer complaints and the falling number of completed jobs in the workshop. Whilst MML would need to ensure that H & S issues are dealt with in a manner which complies with relevant legislation, Bob may not have the knowledge to achieve the updating of the H & S policy and it may be necessary to bring in an outside consultant who would have the skills, experience and knowledge to achieve the desired outcome. Whilst this may be expensive, it would mean that MML would have the required up-to-date policy. Bob would not have to try and up-date the policy himself, which he may not do very well. It would also ensure that Bob could focus on the other issues he needs to deal with, but he would have an up-to-date H & S policy to help him with those aspects of his role, and any issues relating to them.*

<b>Level 3</b>	Candidate demonstrates analytical skills when considering the implications for MML of not having an up-to-date Health & Safety policy.	<b>(6-5)</b>
<b>Level 2</b>	Candidate demonstrates the ability to apply appropriate knowledge of Health & Safety issues.	<b>(4-3)</b>
<b>Level 1</b>	Candidate offers relevant theoretical knowledge only.	<b>(2-1)</b>

- (b) Evaluate methods Bob might use to improve the motivation of the mechanics. [16]

*Bob will find it difficult to overcome the antagonism of the mechanics who are annoyed that he was promoted. This will be the initial hurdle he will need to overcome. He could call a meeting/hold a team briefing to consult with the mechanics and try to find out what issues they are concerned about and take on board any suggestions made. This may go some way towards creating a less hostile atmosphere, and make the mechanics feel more involved in the decision making process.*

*He could also try to empower them to identify solutions to current problems as a team, and encourage them to “buy-in” to a continuous improvement philosophy. This may give the mechanics more ownership over their own tasks and motivate them to find appropriate solutions. He could attempt to do this by introducing quality circles or by organising the mechanics into teams in order to make them more highly motivated and competitive. However, his relationship with the mechanics does not appear to be very good at the moment, possibly due to their resentment at his promotion and/or due to the autocratic management style he has adopted. This might make them resistant to any changes he might try to introduce, and, as a result, he may find it difficult to increase morale and motivation by these methods.*

*He could possibly ask Peter if he would consider offering them a share in MML’s profits as he has with Bob. Peter, however, does not seem to like spending money, so this option may be a non-starter. It is possible that some sort of bonus scheme may increase the number of completed jobs in the workshop by encouraging the mechanics to work harder.*

*It may also prove difficult for Bob because motivation is an individual issue. Firstly, he would need to understand each of the mechanics as an individual, identify the particular methods which might be appropriate (or not) and consider the feasibility/cost of the methods which might be appropriate. He may also have to seek Peter’s approval/permission to implement certain methods which may not be forthcoming.*

*As Bob has had no management training he may not be aware of some methods which might be appropriate, and this may limit the methods he might use/might be suitable. He might also assume that he can use a limited range of methods which are not totally relevant to each individual mechanic who may be motivated by totally different ways.*

<b>Level 4</b>	Candidate demonstrates evaluative skills when considering methods Bob might use to enhance levels of morale and motivation amongst the mechanics.	<b>(16-10)</b>
<b>Level 3</b>	Candidate demonstrates analytical skills when considering methods Bob might use to enhance levels of morale and motivation amongst the mechanics.	<b>(9-6)</b>
<b>Level 2</b>	Candidate demonstrates the ability to apply knowledge of motivation theory to problems with morale and motivation in a workplace.	<b>(5-3)</b>
<b>Level 1</b>	Candidate offers relevant theoretical knowledge only.	<b>(2-1)</b>

# Mark Scheme 2877 Further Operations Management

- 1 (a) Analyse two operational benefits to BCL of having locally sourced raw materials. [6]

- Delivery should be quicker, eg if production needs to be increased suddenly. Lead times should be reduced. Logistically convenient and should also mean cheaper delivery costs for stock.
- Through close links with suppliers BCL should be able to maintain the quality of its supplies of raw materials.
- May reduce the need to hold significant amounts of stocks of raw materials.

However, cheaper/better quality materials may be available from suppliers further away.

*The question is about **operational** benefits therefore answers analysing other functional benefits would be inappropriate e.g. marketing.*

<b>Level 3</b>	For analysing the operational benefits to BCL of having locally sourced raw materials. Analysis might involve candidates discussing potential drawbacks of having locally sourced materials.	<b>(6-5)</b>
<b>Level 2</b>	For demonstrating an understanding of the benefits of having locally sourced raw materials.	<b>(4-3)</b>
<b>Level 1</b>	For showing knowledge of the benefits of having locally sourced raw materials.	<b>(2-1)</b>

- (b) Discuss the operational implications for BCL of switching production methods from batch to flow. [10]

Currently BCL uses a method of batch production for its crisps. However, BCL is planning to change to use some elements of flow production in its new factory.

Batch production has the following advantages:

- Flexibility – can switch varieties of crisps easily to meet customer needs.
- Less machinery is needed and so capital investment is less.
- Some specialisation amongst the workforce (motivation?).

But other issues might be considered:

- Careful planning and co-ordination are needed.
- There is likely to be downtime as machines are cleaned and adjusted to the new flavours.
- Small production runs can be costly in terms of unit costs.

However, flow production means that:

- Larger quantities can be produced at lower unit costs.
- A semi-skilled workforce only is needed.
- Quality should be more consistent.

But:

- It is costly in terms of new equipment.
- It is less flexible, but as only flavours change this should not be a problem.
- Larger stocks of raw materials and finished products might need to be held.



- More waste may be produced e.g. due to over runs, excess stock etc. It is difficult to see any advantage of flow production to BCL, which is selling a premium hand made product to the market.

<b>Level 4</b>	For evaluating the operational implications to BCL of switching production methods from batch to flow.	<b>(10-9)</b>
<b>Level 3</b>	For analysing the operational implications to BCL of switching production methods from batch to flow.	<b>(8-6)</b>
<b>Level 2</b>	For demonstrating an understanding of the operational implications of switching production methods from batch to flow.	<b>(5-3)</b>
<b>Level 1</b>	For showing knowledge of the operational implications of switching production methods from batch to flow.	<b>(2-1)</b>

- (c) **Evaluate the key factors which Jon Moore might consider to be significant when choosing a new factory location for BCL.** [16]

This is a small manufacturing firm located in Cornwall. The size of the business unit it is looking to relocate to remains fairly small by manufacturing standards.

Some of the key points to consider might be:

- Location of raw materials – locally sourced potatoes are a key ingredient.
- Market – crisps are a bulk-increasing product – costs of transport could be important especially if BCL is looking to expand its market.
- Communications – the southwest is not well served by roads.
- Land – this could be costly for a small firm – however, it is likely to be renting/leasing premises so not so important.
- Labour – small firm. Relatively unskilled jobs – not really a major issue; however, a family firm may want to relocate near to the present factory.
- Government (central and local) assistance – Cornwall is an area of high unemployment and so BCL may be eligible for grants, tax breaks, rent free premises, etc. provided new jobs are created.
- Personal preferences – it is unlikely that Jon and Nick would want to move very far – Nick still has the farm to consider.
- Other relevant factors might be discussed.

<b>Level 4</b>	For evaluating the key factors which Jon Moore might consider to be significant when choosing a new factory location for BCL	<b>(16-10)</b>
<b>Level 3</b>	For analysing the key factors which Jon Moore might consider to be significant when choosing a new factory location for BCL	<b>(9-6)</b>
<b>Level 2</b>	For demonstrating an understanding of key factors which might be considered to be significant when choosing a new factory	<b>(5-3)</b>
<b>Level 1</b>	For showing knowledge of key factors which might be considered significant when choosing a new factory location	<b>(2-1)</b>

- 2 (a) BCL's current turnover is £1.5 million a year. With reference to Table 1, based on the current year's turnover, calculate the missing figures £x and £y.

[4]

This is 4% of £1.5 million (y) = £60 000 (1 mark)  
 Current savings from better training on quality control and the new flavour spreading equipment = £7 000 + £14 000 = £21 000 (1 mark)  
 Savings from the heat exchange system is (x) £60 000 – £21 000 (1 mark)  
 = £39 000 (1 mark)

[Max 4 marks]

- (b) Evaluate the implications for BCL of adopting more environmentally friendly business operations. [16]

All businesses need to consider the environmental implications of their business operations. All companies consume energy, buy materials and produce waste which has to be disposed of. All these factors have an environmental impact.

Some of the environmental impacts for BCL which candidates might discuss are:

- The firm uses locally resourced materials, which means less transport costs.
- Its production methods are hand fried batch – which is probably the least environmentally friendly in terms of energy consumption.
- The company produces waste by-products, eg potatoes, cooking oil, crisps.
- The firm uses a lot of energy in its production processes (heat).
- BCL uses plastic packaging for its products.
- The law is changing and waste is being more closely regulated.
- Any operational energy or waste savings can lead to a lowering of costs and an increase in profitability.

Candidates might also discuss the implications of adopting more environmentally friendly business operations on other functional areas of the business.

<b>Level 4</b>	For demonstrating the ability to discuss why it is important for BCL to evaluate the environmental implications of its business operations.	<b>(16-10)</b>
<b>Level 3</b>	For demonstrating the ability to analyse why it is important for BCL to evaluate the environmental implications of its business operations.	<b>(9-6)</b>
<b>Level 2</b>	For demonstrating an understanding of why it is important to know the environmental implications of business operations.	<b>(5-3)</b>
<b>Level 1</b>	For showing knowledge of why it is important for firms to know what environmental impact their business might have.	<b>(2-1)</b>

- (c) Analyse two internal economies of scale which BCL might gain from expanding its scale of operations. [6]

Internal economies of scale can be defined as reducing the unit costs of production as the scale of operations change.

Being a manufacturing company, the likely economies of scale which BCL might achieve are:

- Technical – the use of bigger, faster, more efficient machinery.
- Increased dimensions – the running costs and capital costs will rise less than proportionately as capacity increases, eg the same staff might be able to produce double the amount of crisps.
- Managerial economies – specialist operation staff might be appointed.
- Purchasing economies – better rates when buying, say, potatoes and cooking oil, in larger amounts.
- Risk bearing – BCL might diversify into different types of snack products/ packet sizes, etc.

<b>Level 3</b>	For analysing the internal economies of scale BCL might gain from expanding its scale of operations. Candidates might point out potential internal diseconomies of scale.	<b>(6-5)</b>
<b>Level 2</b>	For demonstrating an understanding of internal economies of scale	<b>(4-3)</b>
<b>Level 1</b>	For showing knowledge of internal economies of scale.	<b>(2-1)</b>

# Mark Scheme 2879 Business Thematic Enquiry

## Marking Strategy

This module is assessed by applying the criteria designed for the Business Project. In those criteria a levels of response strategy is used but it is fundamentally different from levels as used in other units. In this component and in 2878 the four statements in each criterion are levels of excellence of the same skill. Level 4 represents the best that we can reasonably expect in the time available and not perfection. Level 1 represents the least rewardable achievement.

In using the criteria:

**(a) The whole work should be read before deciding on any level for any criterion.**

It is possible to meet the requirements of each criterion at any point in the work and it is the total achievement which must be assessed.

- (b) The approach must be **positive** working from the top down in each case. The object is to define the highest statement which fits the work the candidate has presented.
- (c) It is sufficient that a given level is identified once. Any further demonstrations of that level simply serve to increase the mark awarded within the band.
- (d) There are no right conclusions to the report, what we look for is sufficient use of evidence in logical support of a stated conclusion, recommendation or strategy.
- (e) There are many routes through the report and it is sufficient that the route chosen could be supported by evidence in the case.
- (f) There are 90 marks available for the report and the plan together. These marks will be awarded by reference to the detailed criteria found on pages 45-49 of the OCR Business Studies specification. These criteria enable distinct features of the whole work to be assessed.
- (g) All discussion and use of theory should be within the context of the case and in relation to the risk and reward problem posed. Candidates are expected to focus on their perceptions of the factor(s) which they see as most relevant to the question posed but their line of argument must lead to an answer to that question.

### Criterion 1: The skill with which the problem has been explained in context (5 marks)

*This criterion requires the candidate to define, explain and discuss the problem and the choices available. Parameters within which the problem is presented and aspects of it measured, should be explained and justified. The candidate should show that there is a problem to be solved and present the context in which it needs solution. In this examination the context is strategies for survival and the features of the present position of the business which might impinge upon the problem or the solution selected.*

<b>Level 4</b>	The nature of the problem is well demonstrated, the need to solve it clear and the context is well developed.	<b>(4-5)</b>
<b>Level 3</b>	The quality of the presentation of the problem is sufficient to enable the development of a solution strategy.	<b>(3)</b>
<b>Level 2</b>	The presentation might make it difficult to develop a solution.	<b>(2)</b>
<b>Level 1</b>	There is an attempt to define or explain the problem.	<b>(1)</b>

### Assessing the Plan

The plan has four requirements and is capable of satisfying criterion 1 completely (5 marks available). The definition of the problem and aspects of its context which explain the need for solution satisfy this criterion.

If there is no plan at all or if it fails to address tasks 1 (i) or 1 (ii) then the mark awarded from criterion 1 should be **zero**. A plan which shows a clear perception of the problem and a context which is well explained should gain **five marks**.

### Criterion 2: The skill with which appropriate and realistic objectives have been set and used (10 marks)

*This criterion requires the candidate to set objectives for the investigation as a whole and for distinct stages of it. Once these are set and their realism established they should provide the framework within which the research will take place. The success of the investigation should also be assessed by comparing actual achievements with the intended outcomes.*

<b>Level 4</b>	The objectives set are appropriate to the investigation and have been used as a framework of the report and to evaluate outcomes.	<b>(8-10)</b>
<b>Level 3</b>	Good use has been made of objectives but there are some limitations to their effectiveness or to the candidate's use of them.	<b>(5-7)</b>
<b>Level 2</b>	Either the overall use of objectives is below average or good objectives have been set but not used.	<b>(3-4)</b>
<b>Level 1</b>	There is some evidence of attempts to make, explain, or refer to objectives.	<b>(1-2)</b>

The objectives have to relate to the answering of the question set as the title of the report. They should be listed in the plan together with any assumptions related to them and relevant to the work undertaken. If not in the plan objectives can be rewarded in the report itself. Objectives which are merely listed and play no further part in the report can **only satisfy level 2**. To reach higher levels there must be some use of the objectives in the body of the report and/or in the concluding stages of the work. The fact that there is no list of objectives does not preclude reward under this criterion provided that there is evidence in the report of an objective based approach.

Normally, it is expected that level 2 will have been satisfied in the plan and that higher levels will be evidenced in the report.

**Criterion 3: Evidence of appropriate Research Methods****(10 marks)**

*This criterion requires the candidate to give careful thought to the nature of the problem, the purpose of the research, the data available and the form in which it is best collated. Candidates should refer to research undertaken and the methodology involved, where it is relevant to the problem and the choices being considered.*

<b>Level 4</b>	A method of approach has been selected and effectively justified in the context of the problem and its potential solutions.	<b>(8-10)</b>
<b>Level 3</b>	The approach is good but there is a weakness in it which is not crucial but which should have been avoided.	<b>(5-7)</b>
<b>Level 2</b>	There are sufficient weaknesses in the method or its use, to make the solution of the problem difficult.	<b>(3-4)</b>
<b>Level 1</b>	There is some attempt to develop and apply a method.	<b>(1-2)</b>

Rewardable effort to meet this criterion is to be found in the way the candidate collates evidence. The majority of that evidence should come from the case itself and need not be fully spelt out provided it is being accurately and contextually presented. This criterion should be applied in the knowledge that candidates may sensibly adopt an approach or a focus which sees one or two aspects of the situation as more relevant than others. The extent to which candidates must use external information is not great but such use must be of value to the line of argument adopted and certainly more than mere presentation.

**Criterion 4: Evidence of Appropriate Primary and Secondary Research****(10 marks)**

*This criterion looks at the evidence collected and the justification for doing so. Sufficient primary research will be expected but it should be supplemented by appropriate secondary research including specialist reading around the theme of 'strategies for survival'. Candidates are recommended to make good use of the Internet as a source and to have collected their evidence in a form likely to facilitate analysis and evaluation as the basis of solution. Data is presented in the case which is not necessarily relevant to the issue being considered and candidates are expected to select effectively. The evidence presented should be a balance of that collected in preparatory work and that selected from the case.*

<b>Level 4</b>	Evidence collected is balanced, appropriate, sufficient and in a usable form. It is collated in ways which will make analysis and evaluation effective.	<b>(8-10)</b>
<b>Level 3</b>	The evidence is sufficient to enable analysis and evaluation but there are non-crucial weaknesses.	<b>(5-7)</b>
<b>Level 2</b>	The quality and/or sufficiency of the evidence collected is likely to make analysis and evaluation unrealistic or difficult.	<b>(3-4)</b>
<b>Level 1</b>	Evidence has been collated.	<b>(1-2)</b>

We are most concerned with the appropriateness, quality, sufficiency and balance of the evidence used for the line of argument adopted. In judging sufficiency factors like critical awareness of the context and the evidence offered in the case should be rewarded. We should also bear in mind that the time constraint in the examination does not permit the treatment of a large amount of evidence.

**Criterion 5: Evidence of collection, understanding and use of appropriate Business Studies Knowledge (15 marks)**

*This criterion requires that the candidate has selected from subject knowledge, concepts which are appropriate to risk and reward and to the choices available. Theories or techniques should be critically explained, justified in their selection and effectively used. This use may be in methodology, the collection, collation and presentation of evidence or in its analysis and evaluation. It is expected that the candidates will draw and use knowledge from across the specification and not limit themselves to highly specialised areas.*

**Knowledge which, though correctly explained or presented, has not been used, will not be rewarded.** The knowledge used in compiling the report should relate to the case and the approach adopted.

<b>Level 4</b>	There is evidence of good explanation and use of knowledge consistent throughout the report.	<b>(12-15)</b>
<b>Level 3</b>	Opportunities for the use of knowledge have not been consistently taken and/or understanding and application have been occasionally unclear.	<b>(7-11)</b>
<b>Level 2</b>	Understanding and/or application are consistently flawed or subject based support is lacking in significant areas of the work.	<b>(3-6)</b>
<b>Level 1</b>	There is evidence of application and/or use of relevant subject knowledge.	<b>(1-2)</b>

**Criterion 6: Selectivity, Analysis and Synthesis (15 marks)**

*This criterion assesses the candidate's ability to turn data into evidence, to reject some which will not be relevant, to draw some together (synthesis) and to break other bits down and interpret them (analysis). It looks at the selection of methods of presentation and their appropriateness for the data collected and the use to be made of it. It may become clear that some evidence is weak and candidates who show understanding of this and evaluate the consequences will be credited. Candidates should be using the data which they consider relevant both from the case and from their preparatory studies.*

<b>Level 4</b>	Evidence is appropriately presented and considered forming a good basis for decisions or for strategy development.	<b>(12-15)</b>
<b>Level 3</b>	The overall handling is good but there is a non-crucial weakness.	<b>(7-11)</b>
<b>Level 2</b>	Skills shown will give a basis for some limited evaluation.	<b>(3-6)</b>
<b>Level 1</b>	Some analysis can be identified.	<b>(1-2)</b>

**Criterion 7: Evaluation, Recommendation or Strategy Development****(15 marks)**

*This criterion looks for ability to make logical and reasoned judgements and to select and justify best solutions. Evaluation may be shown at all stages of the work eg in developing criteria for explaining and presenting the problem, in determining a method of approach or in deciding which Business Studies ideas to use. We do not look for 'right answers' but we do expect that any judgements made will also be supported by reference to evidence and to logical argument. We also expect that candidates will evaluate in the light of their own objectives and will show understanding of the limitations placed on their findings by weaknesses at earlier stages in the report. The candidates must also show awareness of the extent to which any strategies or recommendations are realistic in business terms, and appropriate to the problem the business faces and the solutions available.*

<b>Level 4</b>	Reasoning and logic are of a high standard throughout the work. There is clear evidence of critical awareness in the recommendations.	<b>(12-15)</b>
<b>Level 3</b>	Good in the main but some non-crucial opportunities to show evaluation or critical skills have been missed.	<b>(7-11)</b>
<b>Level 2</b>	Judgements made and critical awareness shown are weak in at least one crucial aspect of the report.	<b>(3-6)</b>
<b>Level 1</b>	There is evidence of attempts to support judgement.	<b>(1-2)</b>

**Criterion 8: Presentation****(5 marks)**

*The report is meant to be well structured and easy to read. This criterion gives credit for features which add to the cohesion and readability of the report. This includes such aspects as, work sectioned into paragraphs, diagrams correctly labelled and explained, statistics and other data sourced and quotations attributed. This criterion is not concerned with communication skills but it is concerned with the effective use of specialist subject language and diagrammatic or graphical presentations.*

There is a specific demand for a report. Candidates should be aware of the structural nature of a report and be able to write in that format. Those who write in essay form are limited to a maximum mark of 2 and, in most instances, 1.

<b>Level 4</b>	The report is excellent or good in nearly all presentational aspects.	<b>(4-5)</b>
<b>Level 3</b>	The standard is acceptable but there are some weaknesses.	<b>(3)</b>
<b>Level 2</b>	The standard detracts from the readability of the work.	<b>(2)</b>
<b>Level 1</b>	There is some evidence of an attempt to develop structure.	<b>(1)</b>



**Criterion 9: Written Communication Skills****(5 marks)**

*This criterion is concerned with the ability of candidates to use the English language effectively. It relates to clarity of expression, the structure and presentation of ideas, grammar, punctuation and spelling. **The standard required is not as demanding as that for the Business Project because the candidate is under the time and other pressures of a closed examination.***

<b>Level 4</b>	Communication skills are consistently good throughout the report.	<b>(4-5)</b>
<b>Level 3</b>	The overall standard of written communication is acceptable.	<b>(3)</b>
<b>Level 2</b>	The standard of written communication is acceptable in some respects.	<b>(2)</b>
<b>Level 1</b>	There is some evidence of written communication skills.	<b>(1)</b>

# Mark Scheme 2880 Business Strategy

## 1 To what extent can ABC's SWOT analysis aid the setting of realistic objectives?

[18]

*SWOT is an analytical framework that can be used to diagnose a business' current position. Knowing where you are is an essential first step in setting strategy, but whether it can be used to set objectives is an altogether different matter. It can, though, help to identify external opportunities which could be exploitable, and, as such, inform objectives.*

*Here the SWOT has been constructed internally. How objective is it? Managers may be too close and emotionally bound to the issues to see the reality, particularly given the nature of the size and ownership/control of ABC. So, this SWOT may not be that useful. Far better to have it conducted by a neutral external party (but that costs money). But is not a SWOT is better than no SWOT? Although possibly flawed it will cause managers to diagnostically think about ABC, and indeed spark debate at the annual strategy meeting. As such, it might be a catalyst to discussion and so useful for what it sparks rather than what it actually is. So, ABC's SWOT could well be useful providing it is used as a starting point and that the strategy meeting does not get bogged down in personalities and the specific content of the SWOT – Samantha, for one might feel defensive given that she manages one of the two loss making shops. Further, the SWOT might be cherry picked by Grant and James to support their specific ideas (mobile phones and Internet sales respectively).*

*Objectives set by managers but need to be agreed by shareholders. Here we are told that the shareholders pretty much allow David to do what he wants. But, with a recent track record of losses that may not last much longer. Given these losses it does not really need a SWOT to set an objective of survival, so it could be that its usefulness is limited.*

*Good candidates will recognise the role SWOT can play in strategy and see it as being a means to an end, not an end in itself.*

<b>Level 4</b>	Discussion is evaluative in considering benefits/limitations of using ABC's SWOT to set objectives.	<b>(18-13)</b>
<b>Level 3</b>	Analysis of how ABC's SWOT can assist in the setting of objectives.	<b>(12-8)</b>
<b>Level 2</b>	Applies understanding of SWOT/objectives.	<b>(7-4)</b>
<b>Level 1</b>	Demonstrates knowledge of SWOT/objectives.	<b>(3-1)</b>

**2 Discuss how the strategic direction of ABC might be affected by the opening of a major supermarket in town M. [19]**

*The question links an external change with strategy. Better candidates will approach the issue synoptically, arguing for a whole business, strategic response and seeing the need to address more than one behaviour.*

*The supermarket represents increasing competition; note from SWOT analysis ABC sells nothing which cannot be bought elsewhere. As such a supermarket may offer much the same as ABC, but exploit its buying power and market position to lower prices.*

*Really have two options; close or compete.*

*Closure. M generates a contribution of £99,997, or 15.5% of ABC's total. If it was closed, then ABC's profit would fall by the same amount as the positive contribution. But, also need to consider the impact this would have on the re allocation of the £51150 overheads currently charged to M. Would ABC's total overheads fall in line with the shop closure, or are they constant? Also, need to consider the impact on ABC's buying power as a shop closure means the potential for the loss of various economies of scale. What happens to the staff; cost of redundancies needs to be considered or possible transfer to other shops – indeed, what happens to Ian? NB. He is a family member and so a shareholder, unlikely to be treated as an employee, so the issue is clouded with emotional considerations and not just "hard business" issues. Possible negative impact on the ABC brand given it is a regional chain. But, upside would release the capital value of the site (£2.1m/6 = £350,000 average) which could be used to fund expansion/new venture and address the weakness in the SWOT of a lack of capital. Could closure of M represent the first of a series of dominoes ultimately leading to the failure of ABC?*

*Compete. M makes profit (£2,347) and has third highest sales per employee across ABC (£49,750 is 119.5% of the group average). So, currently staff are doing well (compare to shop W which has £12,470 per employee, 30% of average). But is the weakness of W purely due to labour efficiency (if people don't come into the shop, then employees don't have anyone to sell to!)? Note W fortunes have fallen since the arrival of a supermarket, so the same could well happen in M. Might the market in M be substantially different to elsewhere, such that ABC's centralised approach creates an unattractive local product offering? If so, then need to consider a fundamental change for M, ie create some USP, exploit ABC's strength, for example, exemplary service compared to the faceless supermarket experience, and hope customers value this enough to be less price focused. Unlikely ABC can compete on price, and even then that means lowering prices across all shops not just M.*

<b>Level 4</b>	The view taken is supported by an evaluative treatment of the situation and is explicitly in context.	<b>(19-14)</b>
<b>Level 3</b>	Analysis of how the strategic direction of ABC might be affected by the opening of a major supermarket.	<b>(13-9)</b>
<b>Level 2</b>	View is supported by descriptive use of the case material and/or subject understanding.	<b>(8-5)</b>
<b>Level 1</b>	Offers an unsupported view and/or demonstrates knowledge of how the strategic direction of ABC might be affected by the opening of a major supermarket.	<b>(4-1)</b>

- 3 David estimates that there is a 25% chance of success in the Internet market, yielding net revenues of £12,000, whereas failure would net revenues of (£2000).

Which, if any, market do you think ABC should enter in 2008? Justify your view.

[19]

Two analytical tools could be useful here. Ansoff and Decision Trees, DT. Analysis of the DT suggests ABC should sell Halloween in all shops, see below.

Node	EMV	
9	£12,000	£12,000 > £1,800
10	£10,000	£10,000 > £2,000
5	£4,350	
6	£4,500	
7	(£2,000)	
8	(£30,000)	
2	£4,500	Node 6 > node 5
3	(£2,000)	Node 7 > node 8
4	£1,500	
1	£4,500	Node 2 > nodes 3 and 4

The difference between nodes 2 and 4 is EMV of £3000. Other DT issues surround the robustness of the data used; where did it come from, how accurate is it, etc? All in all it can be argued that the DT does not really help here, other than to set out the three options systematically. So, as decision tool DT is very limited.

Other issues

**Halloween market**, low risk given the least loss if it fails. Space can be made available in shops, so need to consider the opportunity cost of the shelf space used. No staff training implications. Benefits from additional customer visits. ABC may well be able to source product from existing suppliers. Might be able to buy enough stock on credit, sell for cash then pay suppliers. If so, few cash flow implications. But, is this market compatible with the shareholders' values. Might staff also hold the same feelings?

**Mobile phones**. Largest potential loss (£165,000) if it does not work. What is the likely source of finance for the working capital (phones) and the shop refurbishment? If borrowed, the venture needs to return a greater rate than the cost of capital. ABC is loss making, are shareholders willing and able to invest in this risky venture? Already know of some specialist competition locally. What might their reaction be? ABC is not well placed to fight an aggressive price war. Some sense of fit in that ABC already sells top ups. Might increase traffic through the shops, boosting impulse purchases. Staff product training needed, possibly a need to hire additional staff. What goes from the shops to make space for mobiles, this needs to be considered.

**Internet**. Low risk, low probability of success but high return. There is little obvious impact on shops, although someone will need to organise and arrange for dispatch/packaging. Is it not likely that online shoppers are wholly focused on price and as such volumes will be the key to driving down prices in this market? Given the volumes likely, is ABC able to compete with established players, e.g. Amazon? There is also the risk of sales cannibalisation and loss of additional sales.

<b>Level 4</b>	Discussion is balanced in evaluating recommendation.	<b>(19-14)</b>
<b>Level 3</b>	Analyses which market, if any, ABC should enter in 2008.	<b>(13-9)</b>
<b>Level 2</b>	View is supported by descriptive use of the material and/or subject understanding.	<b>(8-5)</b>
<b>Level 1</b>	Offers a view without support and/or demonstrates knowledge of which market, if any, ABC should enter in 2008.	<b>(4-1)</b>

**4 Evaluate whether ABC should change from a centralised to a decentralised business.**

**[20]**

*The aim of the question is to go to the very heart of the culture of the business rather than a big list of the advantages and disadvantages of either type. Better answers will consider the question against two factors; the nature of ABC's environment and its internal management capability.*

*Centralised structures cause slow decision making and responsiveness. It can tend to reduce managerial effectiveness at shop level as the managers may feel unable to influence their particular shop to reflect local needs and characteristics within the time scale they feel is appropriate. As such centralisation works best in an organisation where the middle managers are not capable of decision making and the business operates in a steady uniform environment, where change is slow and anticipated. Does this describe ABC?*

*UK retail is a highly dynamic environment, both on the high street and online. But, the speed of product development/innovation is limited in books and news – indeed, offering information via print has been around, largely unchanged, for centuries. As such decentralisation may not be an issue. Does a single ABC brand confer any advantage to it? Would ABC be more successful if it appeared to its markets as being six independent shops? There is, of course, a world of difference between not having front of house consistency but yet a centralised support structure, eg merchandising. A single brand helps where customers face a large cost of failure by making an incorrect purchase, which might not really be the case for news and books. Most of ABC competitors operate as brands, W H Smith, Waterstones, etc so there might well be advantages in this market.*

*To be successful, retailers need to be able to anticipate and respond to changing conditions. So if there is a big local demand for a particular title then that shop needs to be able to respond fast, but this is less likely with a centralised approach. Similarly, centralisation means the marketing effort of ABC is homogeneous. This is fine if its six towns are similarly uniform – this might be the case given their geographical proximity.*

*Is it coincidence that the call for greater devolution is coming from Samantha? She is the least successful manager for ABC. Would she, and others, have the ability to accept successfully greater operational freedom? Might centralisation be the cause of her problems or might it actually be limiting ABC's losses? Other staff issues are the increased ease by which staff will accept being moved about if pay and conditions, operational policies, etc of ABC are uniform. Also, saves ABC retraining costs and time. Other benefits, bulk buying and marketing economies of scale customer familiarity, etc.*

<b>Level 4</b>	Achieves an overall view having evaluated different possibilities.	<b>(20-15)</b>
<b>Level 3</b>	Analysis of whether ABC should change from a centralised to a decentralised business.	<b>(14-9)</b>
<b>Level 2</b>	View is supported by descriptive use of the case material and/or by understanding of centralised/decentralised organisations.	<b>(8-4)</b>
<b>Level 1</b>	Offers an unsupported view and/or shows knowledge of centralised/decentralised organisations.	<b>(3-1)</b>

# Grade Thresholds

Advanced GCE Business Studies (3811/7811)  
January 2008 Examination Series

## Unit Threshold Marks

Unit		Maximum Mark	A	B	C	D	E	U
2871	Raw	45	32	29	26	23	21	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	35	31	27	24	0
	UMS	120	96	84	72	60	48	0
2874	Raw	60	37	33	29	26	23	0
	UMS	90	72	63	54	45	36	0
2875	Raw	60	41	37	33	29	25	0
	UMS	90	72	63	54	45	36	0
2876	Raw	60	40	37	34	31	28	0
	UMS	90	72	63	54	45	36	0
2877	Raw	60	38	34	30	26	23	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	69	64	59	55	51	0
	UMS	90	72	63	54	45	36	0
2880	Raw	80	56	51	46	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

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

	A	B	C	D	E	U	Total Number of Candidates
3811	8.1	29.0	60.3	86.4	96.9	100.0	396
7811	6.7	42.2	77.8	95.6	100.0	100.0	46

## 442 candidates aggregated this series

For a description of how UMS marks are calculated see:  
[http://www.ocr.org.uk/learners/ums\\_results.html](http://www.ocr.org.uk/learners/ums_results.html)

Statistics are correct at the time of publication.

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