

Business Studies

Advanced GCE **A2 7811**

Advanced Subsidiary GCE **AS 3811**

Mark Schemes for the Units

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Advanced Subsidiary GCE Business Studies (3811)

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2871 Businesses, their Objectives and Environment

- 1 Chris and Rachael have had difficulty finding people to invest in their company “despite stressing the ways in which an investor could make money through the purchase of shares” (lines 44-45).

State two ways in which an investor could benefit through the purchase of shares.

[2]

- *(Capital gain via) a rise in the share price. Accept “they go up in value/price”, etc*
- *(Payment of) a dividend. Accept “you get a payment from shares”, etc*
- *To get a vote/voice/“say”/to protest (at the AGM over the companies policies)*
- *To (try to) gain control*
- *To asset strip (the term does not have to be used)*
- *To get ‘perks’/benefits*
- *To gain limited liability*

Level 1: 2 x 1 Mark (2)

- 2 Outline two differences between a public limited company and a private limited company.

[4]

A public company:

- *has shares sold on the stock market. Ltd does not*
- *has shares that are sold to anyone. Ltd has to sell shares via private negotiation/cannot advertise shares for sale to the public*
- *has no restrictions on share transfers. Ltd may have restrictions on share transfers. All/most existing shareholders may have to agree*
- *is denoted by ‘plc’. A private company must end with ‘Limited/Ltd’*
- *needs considerable detail/information in its Report and Accounts. In a private company, reporting/accounting is less complicated*
- *has a minimum share capital of £50,000. Ltd has no minimum*
- *has a minimum of 2 shareholders. Ltd is 1*
- *is usually ‘large’. Private companies tend to be smaller/“often found in family businesses”*
- *etc.*

For Level 2, the difference must be made clear. A statement such as “In a plc the shares are on the Stock Exchange” is, therefore, only Level 1.

Level 2	Difference(s) outlined	(4-3)
Level 1	Difference(s) identified/knowledge of a private/public company stated	(2-1)

- 3 KPL sells graphic design services in Spain and buys recycled paper from France. Analyse the implications for KPL of a fall in the value of the pound. [9]**

The effects of a fall in the exchange rate:

- *the pound will buy less foreign currency than before*
- *UK exports become cheaper*
- *imports into the UK become more expensive.*

When the value of the pound falls, Rachael's design services are now cheaper and so, theoretically, this would mean more sales abroad.

However, the fall in the rate will mean that the imported paper the business uses has now become more expensive. Will Chris seek an alternative domestic supplier?

The effect of an exchange rate change on KPL depends on:

- *the amount of design work Rachael does abroad. At the moment it is not very much*
- *would a fall in the rate bring a major increase? NB knowledge of elasticity is not required on 2871*
- *the value of the paper imported by Chris. If this is a small proportion of KPL's total costs, then it will not be badly affected by a fall in the rate*
- *if any cost increases caused by a fall in the rate can be 'passed on' to KPL's customers*
- *whether the fall in the rate is (expected to be) temporary or permanent*
- *whether the rate change is large or small.*

Level 3	Some analysis of the effect(s) of a rate change on KPL	(9-8)
Level 2	Some application of the issues	(7-4)
Level 1	Knowledge of exchange rate stated	(3-1)

- 4 **Discuss the sources of finance which KPL could use in order to fulfil the AEP contract.** [14]

Possible sources:

Invest more themselves. Rachael and Chris could invest more in the form of shares from their own funds or make a personal loan to their company. NB Accept 'Use their own money'/'get money from their credit cards', etc.

Issuing more shares to others. Only £3,700 of the authorised £30,000 has been accessed so far. But who would buy the shares? Easy to do given their track record so far?

An overdraft is a possibility but is really for short-term (cash flow) use rather than long-term growth. Could be used for purchase of materials, but is it advisable to be using overdraft facilities for the purchase of machinery?

Another loan from the bank. Would this be forthcoming given the existing loan? Issues of security for the loan, necessity to produce (another) business plan. See also below.

The government. KPL is located in an area that qualifies for assistance. Better answers will recognise that this assistance is not 'a no strings attached bag of cash'. The assistance may be, for example, a grant for training or the purchase of capital equipment. In order to qualify there will have to be evidence of safeguarding jobs, job creation, ability to compete more effectively, etc.

Use of hire purchase/leasing. Would not have to find the money 'at once'. Could end up paying more for any capital equipment than if it was bought outright. With leasing, the machinery would never belong to KPL. Does this matter?

Trade credit. KPL should make as much use of this as possible to improve cash flow and reduce the necessity of borrowing via methods that require payment of interest.

If **retained profit** is used, any loan will be smaller and, therefore, less interest payable. Once used it is gone. Do they need a financial 'cushion'?

Do not accept "go public"; this is not realistic!

Level 4	Some evaluation of the source(s)	(14-11)
Level 3	Some analysis of source(s)	(10-7)
Level 2	Some application/understanding of the issues	(6-4)
Level 1	Knowledge demonstrated of source(s) of finance	(3-1)

- 5 “Our next objective will be growth through the AEP contract”. (lines 103-104).
Other than sources of finance, evaluate the influences which are likely to determine whether KPL successfully achieves this objective. [14]

The question centres on sections 1&/or 4&/or 6 of the specification. Being able to do this will be dependent on a number of the following:

Section 1 “What businesses need”

For the AEP contract, the following are particularly important:

- *(motivated) employees: are Kassim and Mandy ‘up to it’? If they are not committed this could impact on KPL’s ability to fulfil the contract*
- *meeting AEP’s needs as a customer; ie KPL’s ability to be ‘green enough’ and develop an environmental policy*
- *(reliable) suppliers who meet AEP’s standards. Can the right materials be obtained? Will suppliers meet deadlines? Holding the right quantities of stock*
- *‘well managed’ cash flow. If KPL runs into cash flow problems, this could affect the contract*
- *etc.*

Other influences are:

Section 4 “Planning”

There will need to be careful coordination of everything (the new contract and existing jobs) by Chris and Rachael. (Chris says in lines 96/7 “we’re contracted to do loads of work already”. Will this be easy to manage/‘put aside’?) Ability of Rachael and Chris to liaise with the translators producing the text. There appears to be a problem with some of the translation (line 108). If this is true, then there is also the possibility of problems with the other translations and this could mean significant problems; Rachael and Chris do not want to print all the brochures and then have to do it again because the translators may have made errors!

Section 6 “Other influences”

Technology – *Chris says they will need new machinery. Can the existing technology cope if finance is hard to obtain? Will the machines be ‘a white elephant’ after the contract or can they be used again? Training implications for Kassim & Mandy?*

Ethics *If Chris ‘cuts corners’, ie dumping at the tip (line 112) and was caught, is AEP ever likely to find out in reality? Implications if it did? Would AEP really cancel the contract?*

Level 4	Some evaluation concerning the impact of the factor(s)	(14-11)
Level 3	Some analysis of factor(s) in context	(10-7)
Level 2	Some application of issue(s)	(6-4)
Level 1	Knowledge recalled about factors influencing business success	(3-1)

2872 Business Decisions

- 1 Outline two financial issues which easyJet could consider when making the decision to invest in expanding its fleet of aircraft. [4]

- *Estimated cash flows generated by the investment*
 - *Rate of return expected*
 - *Payback period*
 - *Availability of finance*
 - *Cost of the investment (any revenue costs)*
 - *Economic Issues (if specifically financial)*
 - *Opportunity costs (if related to financial issue)*
- Any relevant financial points made.*

Level 2	Appropriate financial issues relevant to investment decisions explained and/or applied to the business	(4-3)
Level 1	One or two appropriate financial issues relevant to investment decisions stated.	(2-1)

- 2 (a) (i) Calculate the average total revenue per passenger for the six months to March 2007. [2]

Total revenue £719m
Passenger numbers 16.4m [1]

Average total revenue per passenger = £43.84 [1]

- (ii) Using your answer from (i), calculate the percentage of easyJet's total revenue that comes from non seat sales in the period to March 2007. [3 marks]

Revenue from non seat sales = $\frac{43.84 - 31.70}{43.84} \times 100$ [1+1]
Total revenue per passenger = £43.84

Percentage of revenue – non seat sales = 27.69% [1]

Use own figure rule as is appropriate.

(b) Evaluate easyJet's plans to cut ticket prices in the summer to boost seat sales.**[12]***What pricing policies does the company employ?**What other factors affect demand? To what extent do these outweigh the impact of price?*

- *Price of other goods – complements (eg holidays), substitutes (other airlines)*
- *Income*
- *Advertising*
- *Tastes and fashions*

*Consideration of the nature of the market and how competitive it is. Also the extent to which the seasonal nature of the market is important. To what extent do such factors have an effect on the pricing decisions of the company?**Consideration of the price elasticity of demand in such a market. If price elastic this would indicate that the company could, in fact, cut prices to increase demand in order to boost revenue. This fits with the highly competitive nature of the market.**Does the elasticity change at different times of the year?**OFR applies – proceed from the candidates use of their calculations in part (a).**Any other relevant points.*

Level 4	Some evaluation of the importance of the proposed cuts in ticket prices in boosting demand.	(12-10)
Level 3	Some analysis demonstrated by considering the implications of the proposed cuts in ticket prices for demand in context.	(9-7)
Level 2	Some application/understanding of the proposed cuts in ticket prices.	(6-4)
Level 1	Appropriate concepts and issues identified	(3-1)

3 Using appropriate motivational theories, evaluate easyJet's methods of motivating its cabin crew. [12]

Consideration of the different ways that easyJet motivates its cabin crew within the framework of the motivational theorists. Examples could include:

- *to what extent does the firm reflect Taylor's approach, eg the commission on easyKiosk sales?*
- *the lower levels of Maslow's hierarchy may be addressed, eg pension contributions/life assurance may reflect security needs but how effectively are the higher levels addressed, eg through career development opportunities?*
- *to what extent do the various elements of the financial rewards act as motivators rather than hygiene factors (Herzberg)*

Use of example to illustrate the theory being discussed:

- *the use of the bonus of 2 weeks pay depending on performance. How will this be assessed? (Taylor)*
- *what will be the impact on those who do not achieve it? Will it become a hygiene factor if everybody achieves it? (Herzberg).*
- *the importance of cabin crew bonding as a team (Mayo)*
- *any other appropriate examples used to illustrate the points made.*

Weighing up financial and non-financial motivational techniques to consider which are more effective in motivating staff. Consideration of the impact of time in the use of motivational tools.

Any other relevant point made.

Level 4	Some use of theory to support the evaluation of the motivational methods and their relative importance	(12-10)
Level 3	Some use of theories to show analysis in considering the implications of the motivational methods in context.	(9-7)
Level 2	Some application/understanding of the motivational methods demonstrated	(6-4)
Level 1	Appropriate concepts and issues identified	(3-1)

- 4 Discuss the possible advantages and disadvantages to easyJet of its plans to increase its capacity by 15%. [10]**

What does the company actually mean by increasing capacity by 15%? More aircraft? More seats? More routes? More staff? Consideration of the pros and cons of these courses of action. Are any of these actually underutilised at the moment?

Demand is seasonal – there may be an advantage of more sales but will the firm find a disadvantage that planes are underutilised at certain times of the year? What can it do about this? Extra marketing may be a solution but will increase costs. If it is going to expand would it be better to lease the planes rather than purchase them? What are the costs of benefits of this course of action?

Are any of the new routes replacing old routes or are they all extra ones? The advantages of reaching new markets vs the costs of setting up new infrastructures in new airports/countries to service these new routes.

Are there potential economies of scale to be gained from increasing capacity?

Increase in costs – variable costs such as fuel and wages are increasing anyway. Will this reduce any potential economies of scale?

The need for staff both on the ground and in the air. Consideration of the recruitment, selection and training costs for these staff. Also consideration of the organisational structure issues such as line management, hierarchy and communication issues.

Level 4	Some evaluation by weighing up the advantages and disadvantages of the increase in capacity.	(10-9)
Level 3	Some analysis of the implications of the advantages and disadvantages of the increase in capacity demonstrated in context.	(8-5)
Level 2	Some application/understanding of advantages and disadvantages/concepts/issues	(4-3)
Level 1	Identification of advantages and disadvantages/concepts/issues	(2-1)

2873 Business Behaviour

1 a) Refer to Table 1.

- (i) Sarah Adams has identified the mistake which was made when calculating the cost data in quarter 2 (line 40). The variable costs for Quarter 2 were in fact £20,000 less than originally thought.

Calculate the revised actual net profit for Quarter 2. [2]

$$\begin{aligned} \text{Actual costs} &= £1,234,004 - £20,000 \\ &= £1,214,004 \end{aligned} \quad [1]$$

$$\begin{aligned} \text{Actual profit} &= £1,356,297 - £1,214,004 \\ &= \underline{£142,293} \end{aligned} \quad [1]$$

(Correct answer with no working out = 2 marks)

or

$$\begin{aligned} \text{Actual profit} &= £122,293 + £20,000 \\ &= \underline{£142,293} \end{aligned} \quad [1]$$

- (ii) The actual total cost and revenue figures are now available for Quarter 3. Actual total costs exceeded budgeted costs by £67,500. Actual revenue was lower than budgeted revenue by 2%.

Calculate the actual net profit for Quarter 3. [4]

$$\begin{aligned} \text{Actual revenue} &= £1,600,000 * 98\% \\ &= £1,568,000 \end{aligned} \quad [2]$$

$$\begin{aligned} \text{Actual costs} &= £1,350,000 + £67,500 \\ &= £1,417,500 \end{aligned} \quad [1]$$

$$\begin{aligned} \text{Actual profit} &= £1,568,000 - £1,417,500 \\ &= \underline{£150,500} \end{aligned} \quad [1]$$

(Correct answer with no working out = 4 marks)

OFR

(b) Discuss the advantages and disadvantages to LTSL of using budgets as an aid to decision-making. [10]

There are advantages and disadvantages of using budgets at LTSL. Advantages include:

- *Budgets act as a means of controlling income and expenditure as well as a review for a business allowing time for any necessary corrective action. In LTSL's case its rapid growth may lead to difficult decisions having to be made to prevent a loss of control of costs, to the extent that profits are damaged.*
- *The coming global expansion will need to be well planned. Budgets help to ensure that capital is usefully employed in a manner consistent with the planned level of activity.*
- *Budgets allow communication of targets and delegation of responsibility to other managers and employees in the business. Given the number of employees and countries that LTSL are operating in, budgets will be very helpful.*

There are, however, disadvantages of using budgets. They include:

- *When budgets are consistently missed they can lose their importance. There is already a lack of attention to budgets in LTSL and recent experience of errors, mistakes and large variances will further reduce the credibility of budgets to the other managers. This is an issue of culture and one that Sally will need to address urgently.*
- *Changes in circumstances can make a budget unrealistic. The rapid growth at LTSL and planned further expansion may minimise the accuracy of budgets.*
- *Budgets can lead to demotivation of the workforce if they are imposed and/or performance is measured against them. Given the problems that LTSL have in recruiting staff in Cardiff this may be a particular problem.*

ARA

Level 4	Some evaluation shown by assessing how budgets help LTSL's decision-making, possibly weighing up the overall pros and cons for LTSL. Both sides of the argument MUST be mentioned.	(10-9)
Level 3	Some analysis of the advantages and disadvantages of using budgets for LTSL, with reference to the context available.	(8-6)
Level 2	Some understanding shown of how budgets can be used at LTSL.	(5-4)
Level 1	Some knowledge of budgets and/or the budgetary process, including correct statements about the budgeting process.	(3-1)

2 Evaluate how LTSL could improve its recruitment methods at its head office in Cardiff. [16]

As LTSL are finding it hard to attract staff for the head office, then perhaps it should review the current employment model and move to a flexible and virtual one. Many employees nowadays are simply not interested in working fixed hours in a set location. They are more concerned with their own quality of life than having free massages or healthy lunches. This will require a change of attitude and culture. For a relatively young 'trendy' company it appears strange that Phil is so concerned about how applicants dress for their interview.

Maybe LTSL need to reconsider where they advertise. The jobs that Phil mentions are very specialised and so require highly targeted advertisements. Placing general adverts in local newspapers is far too much of a scattergun approach. If LTSL is seeking a contract manager then it needs to use those magazines/websites that are used and read by that sort of person. Also, for senior appointments it may be worth using an agency to help with the placement of the advert and the shortlisting of candidates.

Recruiting senior managers is not the same as taking on graduates. Perhaps Phil and Russell should consider promoting internal candidates and then they would only need to recruit more junior employees which may be easier. They could consider offering a bonus to current employees who find new candidates. Alternatively, they need to look further afield for employees. Cardiff is a fast growing and prosperous area of the country nowadays, with an increasingly young labour market. It may be possible to attract employees from less attractive areas of the country and so LTSL needs to be flexible about where it recruits from.

It mentions in the case study that LTSL has no real problem attracting staff in Hungary. With the increased number of EU countries with high levels of unemployment but a well educated labour force, maybe LTSL could attend employment fairs in East European countries and attract the best of these workers who are happy to move to the UK.

Russell is currently considering the idea of a company flotation. Maybe, with his concerns for the workforce, he should think about share options for the staff. This would be an additional attraction to working at LTSL and one that is increasingly common in similar sized businesses. This would not only allow the workforce to share in LTSL's success but also go some way to satisfying Russell's concerns about treating the staff right.

Candidates need to look at this issue in the context of the internal factors affecting LTSL, such as the proposed expansion and ethos of the business, as well as the external factors such as the changing labour market in the UK and EU. It is vital that this recruitment problem is solved as it is correct for Phil to say that it has the potential to restrict any future plans at LTSL.

NB: Recruitment can include any part of the workforce planning process up to & including the interview.

ARA

Level 4	Some evaluation shown by attempting to discuss the overall suitability of changes to the recruitment process at LTSL.	(16-13)
Level 3	Some analysis of recruitment methods with specific reference to the issues facing LTSL, to show the benefits or otherwise.	(12-9)
Level 2	Some understanding shown of recruitment methods, without any attempt to show whether they will or will not work at LTSL.	(8-5)
Level 1	Some knowledge of recruitment methods.	(4-1)

3 Discuss suitable promotional methods for LTSL's proposed interpreting services. (Line 95) [16]

Many promotional ideas may be suggested, although it is important to appreciate that any methods need to be appropriate for business-to-business.

An initial consideration is to know what the objectives are for the interpreting service. How quickly does Russell want the new service to expand and what proportion of LTSL's turnover does he expect from it in the first year, five years, ten years? If it is expected that this new product is going to be as successful as quickly as the translating services, then more intense promotional methods will need to be invested into it at the start.

It appears that most of LTSL's current business comes from the website. Is this likely for the interpreting service? Given that organisations such as governments are mentioned, it may be necessary to promote the service in a completely different way. This will require more traditional promotional methods such as mailshots, advertising and networking. Quality is a significant component of LTSL's current marketing mix. It will therefore be necessary for the company to ensure that the new service offered does not detract from this reputation. This means that any promotional methods fit this image and emphasise the quality aspects of the business.

Pricing issues may be discussed, as long as these are related to promotion. Will LTSL have an introductory low price to attract business, or will this give the wrong signals about the quality of service that the company is keen to stress? Again, more business will be done "in country" and so pricing decisions will be more complex. Suggestions must be relevant to a firm in the business-to-business market.

Good answers to this question will recognise the unusual nature of this firm's product, and will make good use of the evidence available in the case study to support and underpin any points being made.

ARA

Level 4	Some evaluation shown by considering the suitability of promotional methods, justifying any judgements made in light of the specific issues facing LTSL.	(16-13)
Level 3	Some analysis of promotional methods that could be appropriate to LTSL and how they may or may not work for them.	(12-9)
Level 2	Some understanding shown of suitable promotional methods for a business such as LTSL when introducing a new product.	(8-5)
Level 1	Some knowledge of different promotional methods.	(4-1)

4 Assess how economies of scale might be achieved as LTSL expands. [10]

Economies of scale occur in the long-run due to an increase in operational size of a firm (internal) or industry (external). There are a number of ways in which LTSL may benefit from internal economies:

Managerial – The increase in size due to the expansion of LTSL means that it is able to employ more managers to take on specific responsibilities in specific areas of the business (or countries) that maybe previously had to be carried out by other managers. These specific managers may be better qualified and experienced. They will also have more time to dedicate to their specific responsibilities.

Technical – Larger firms are generally more efficient. In LTSL's case, one example of this may be the website. A doubling in size of the business is unlikely to lead to a doubling in costs of running the website.

Financial – LTSL will have wider potential sources of finance at a lower cost. Although we are told that LTSL has no debt, that does not mean it will not need to borrow in the future. In any case it will still need to use the services of banks from which LTSL will almost certainly get a 'better deal' as it grows in size and becomes better known in the world market.

A major discriminator in this question will be how realistic the suggested economies of scale are to LTSL's business characteristics.

ARA

Level 4	Some evaluation shown by justifying any judgements made.	(10-9)
Level 3	Some analysis of specific economies of scale achievable by and/or desirable for LTSL.	(8-6)
Level 2	Some understanding shown of how economies of scale occur and/or how a firm benefits (eg lower unit costs).	(5-4)
Level 1	Some knowledge of economies of scale (eg. just naming different categories).	(3-1)

2874 Further Marketing

- 1 (a) Discuss the factors that might cause potential customers of BirdTown Park and Gardens to visit the attraction. [16]

Several factors and plenty of case evidence. The specification highlights income, advertising and price, but there are other issues such as competition, brand loyalty, word of mouth, perceived quality, etc.

Close consideration of the issues should allow the candidate to evaluate and prioritise the factors. Better answers may well mention the issue of segmentation and consideration of the different types of customers (aimed at higher socio-economic). To reach Level 4, there is a need to prioritise the factors affecting demand to the specific case of BirdTown. The focus in the question is meant to be based on visitors to the attraction rather than specific issues related to different profit centres.

Level 4	Evaluation of the factors in relation to buyer behaviour, in context.	(16-10)
Level 3	Analysis of the factor(s) in the context.	(9-6)
Level 2	Application/understanding of the factor(s).	(5-3)
Level 1	Identification of the factor(s).	(2-1)

- (b) (i) Refer to Table 2a and Table 2b. Calculate the change in the predicted sales value between the third and fourth quarters of 2009. [4]

Calculation:

Prediction for Q3 £350000 + £51000 = £401000 (1)

Prediction for Q4 £352500 - £13000 = £339500 (1)

*Fall (1) in predicted value £401000 - £339500 = £61500 (1)
OFR applies.*

- (ii) Discuss how an understanding of time series analysis might assist Gerry in his planning for BirdTown. [10]

Time series analysis uses past sales data to assist in the estimation of future sales values. The calculation highlights the great variation which exists in sales between consecutive periods. This suggests that there is a need to be able to predict sales. This may have an impact on all aspects of the marketing process as well as aspects of production, staffing and finance.

Candidates should be able to consider what TSA is and how it might be applied to BirdTown. The changing nature of the market, the number of different profit centres (is the data for the business as a whole or just admission?) and the possible development of BirdTown may render the process of little use. TSA may make Gerry think about the problems of seasonal sales. To achieve L4, it is important to show whether TSA is a useful technique for Gerry to use, ie there has to be a judgement.

Level 4	Evaluation of the usefulness of TSA in relation to planning, in context.	(10-9)
Level 3	Analysis of the usefulness, in the context.	(8-6)
Level 2	Application/understanding of the factor(s) or TSA.	(5-3)
Level 1	Knowledge of TSA or factor(s) of planning.	(2-1)

- 2 (a) Analyse how a SWOT analysis might help Gerry to assess BirdTown's current position. [6]

A SWOT analysis is an assessment of BirdTown in terms of its current strengths and weaknesses and the possible future opportunities and threats. Candidates are not required to draw up a SWOT but instead should focus on whether doing so would be useful to Gerry. Given the complex nature of the business (lots of profit centres) and the need to assess what is going well/not going well, it may be useful. Factors such as the time to draw up the SWOT, accuracy of it, etc, may also be considered.

Level 3	Analysis of the use of SWOT analysis in the context.	(6-5)
Level 2	Application/understanding of SWOT factor(s).	(4-3)
Level 1	Knowledge of SWOT factor(s).	(2-1)

- (b) Analyse two ways in which successful marketing will help Judy and Gerry to achieve their business objectives. [6]

Marketing is concerned with assessing customer demand and then trying to satisfy that demand in the right place at the right time. Judy and Gerry are concerned with making a profit and working with birds. They also wish to see overall revenue increase. Successful marketing should help to ensure that Judy and Gerry are aware of customer requirements and they will ensure that the right prices are charged, the right services are provided, etc, at the right time.

Level 3	Analysis of successful marketing in the context in relation to the objectives.	(6-5)
Level 2	Application and/or understanding of successful marketing in relation to the objectives set.	(4-3)
Level 1	Identification of marketing issues/objectives/definition of marketing.	(2-1)

- (c) Develop and justify a marketing strategy that Gerry could use for BirdTown. [16]

A marketing strategy is a combination of the elements of the marketing mix, which face a firm at a given point in time. The marketing strategy should meet the marketing objectives (to provide a good service, make a profit, growth, etc.) without overspending the budget set. In terms of the material in the case, there are a number of possible issues to consider. BirdTown has several revenue streams and better answers may consider different approaches to marketing for the different profit centres. Candidates may wish to consider aspects of pricing, changes to the product, distribution strategy or promotion. The drawing together of the different aspects of the mix is a requirement of the question. Candidates should be rewarded highly if their answer highlights a strategic approach, ie setting objectives, SWOT analysis, etc. In the case, there are a number of suggestions which take the business forward, eg the move towards interactive displays, etc. Having different ideas for each of the suggestions should also be well rewarded. To reach L4, there is a need to evaluate the strategy presented in relation to the stated objectives. The firm has a number of options and it is quite likely that a mixed set of marketing approaches is needed to deal with each of the options. A strategic approach may well consider timescale, cost, validity of techniques, etc.

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

2875 Further Accounting and Finance

- 1 (a) With reference to Table 3 and the footnotes, calculate the total contribution generated by sales of wine in 2008. [4]

20000 bottles sold at £8.5	£170,000	[2]
Direct cost per bottle	£3	
Therefore, total direct cost	£60,000	[1]
Therefore, contribution	£110,000	[1]
<u>or</u>		
Unit contribution	£5.5	[2]
Total contribution	£110,000	[2]

For correct answer, award 4 marks

- (b) Discuss the usefulness of profit centres as an aid to the management of CEL. [10]

Profit centres are parts of a business for which separate profit and loss accounts can be drawn up. Cost centres are those parts of a business that can be held accountable for some of the costs of the organisation and to which costs can be directly attributed. Profit centres require a somewhat arbitrary allocation of indirect costs to be made. The success or failure of a centre can also be more readily identified. Problems can be more readily identified and perhaps corrected. However, not all costs can easily be allocated. Furthermore, individual centre's performance might be influenced by the performance of the business as a whole. In the case of CEL, it has three clearly defined areas of activity. It would allow a clear picture of the importance of each department in generating profits to the business as a whole. It would allow better decisions to be made regarding the desirability of continuing with an activity. It is thus, a real aid to long term decision making.

Level 4	Evaluation of the technique with a focus on its role as an aid to the management of CEL.	(10-9)
Level 3	Analysis of how profit centres aid the management of CEL.	(8-6)
Level 2	Application/understanding of the technique	(5-3)
Level 1	Knowledge of the technique	(2-1)

- (c) Analyse the effect that the depreciation of fixed assets will have on CEL's cash flow and profits. [6]

Depreciation is a measure of the wearing out, consumption or other reduction in the useful life, of a fixed asset. It is the accounting method of spreading the cost of an asset over its economic life. The purchase of fixed assets is regarded as a capital expenditure which will result in an asset being held over a number of years. Thus, as such their cost must be spread over time. Thus, if a business acquires more fixed assets the depreciation figure shown in its accounts will increase. In this case both depreciation options involve acquiring more premises and, hence, fixed assets will increase. It is shown as a cost in the profit and loss account and, hence, will have an adverse impact on profits. However, it is a book keeping cost and does not represent a cash flow as such.

Level 3	Analysis of the impact of depreciation on CEL's cash flow and profits	(6-5)
Level 2	Application/understanding of the concept of depreciation in context	(4-3)
Level 1	Knowledge of the concept of depreciation	(2-1)

- (d) Should CEL proceed with either of the two options (A or B) investigated by Ceri? Justify your answer. [16]

Options can be evaluated with respect to a number of criteria:

- anticipated financial rates of return;
- funding implications;
- risk;
- impact on the business as a whole.

The business has a minimum requirement of 10% return on capital over a five year period. Thus, to be considered acceptable each option must first pass this test. Investment appraisal shows the following:

Option A annual net cash flow	£169,800
Set up costs	£600,000
NPV at 10%	+ £43,542
Pay back	3.53 years

Option B net cash flow	£95,800
Set up costs	£350,000
NPV at 10%	+£13,082
Pay back	3.65 years

Both options exceed the 10% minimum return test with A giving a greater NPV. It would seem to complement the other parts of the business and might boost wine sales and increase the profile of the vineyard. However, B requires £250,000 less set up capital. The issue of funding is a major one for CEL. Can another £350,000, let alone £600,000, be raised? It does not seem likely given the existing level of debt and the gearing levels. If all the capital was borrowed, the gearing would be 74% (Option B) and 78.9% (Option A). The risk factor is difficult to assess. Any new venture will face problems of gaining acceptance in the market. Much will depend on:

- level of competition;
- quality of the food;
- quality of self-catering units;
- gap in this niche market;
- existing reputation of CEL in the local area.

On balance, the venture should be held back until a stronger capital base can be established.

Level 4	Evaluative judgement based on the financial position of CEL and a relevant appraisal of the data.	(16-10)
Level 3	Analysis of relevant data	(9-6)
Level 2	Application/understanding of investment issues	(5-3)
Level 1	Knowledge of investment decision	(2-1)

2 (a) Analyse the impact on CEL's costs if interest rates rise by 2%. [6]

Interest rates clearly represent a cost to a business and, hence, any rise in rates will tend to have the effect of reducing profits. The impact of this will obviously depend on the level of debt carried by the business. Furthermore, the significance of this rise will also depend on how important a proportion of total costs are accounted for by debt servicing costs. CEL is a highly geared business and, hence, its impact will be of some significance. In 2008 total interest charges were £26750.

Long term bank loan £400000 at 6%	£24,000
Overdraft £50000 at 5.5%	£2,750

If interest rates went up by 2%, with same level of debt the figures would be:

Long term debt at 8%	£32,000
Short term debt at 7.5%	£3,750
Total interest costs	£35,750

Therefore, costs rise by	£9,000
Thus, 2008 profits would have been	£74,250
This represents a fall of 10.8%	

Clearly, debt levels are likely to rise in 2009 to finance the new venture. Thus, impact will be proportionally higher and may well create short term liquidity problems for the business.

Level 3	Analysis of data to demonstrate explicitly the impact of the change on CEL.	(6-5)
Level 2	Application/understanding of issues.	(4-3)
Level 1	Knowledge demonstrated.	(2-1)

- (b) Evaluate the performance of CEL in 2008 using both quantitative and qualitative data.

[16]

The figures can be analysed as follows

	2008	
Sales of wine	170,000	
Bed and breakfast	39,200	approx £280x40% = 112x350
Revenue from café	130,000	
Total Sales	339,200	
Cost of sales	149,200	
Overheads	80,000	
Net profit	110,000	
Interest	26,750	
Net profit before tax	83,250	
Rate of return on capital	12.48%	

Figures for 2007 showed	2007	2008
Contribution from wine sales	140,000	111,000
Contribution from Bed and Breakfast	32,000	30,000
Contribution from café	45,000	50,000
Total contribution	217,000	190,000
Overheads	75,000	80,000
Net profit	142,000	110,000
Interest	26,750*	26,750 *
Net profit before tax	115,250	83,250
Rate of return on capital	17.3%	12.48%

- Thus, figures suggest that 2008 was a disappointing year for CEL:
 - return on capital fell by 4.8%
 - profits fell by £32000
 - main cause of this was fall in contribution from sales of wine
 - demonstrates the potential danger of a business which is heavily dependent on sales of a product that are affected by climatic factors

Judgement might, therefore, suggest that the business needs to diversify somewhat to become less vulnerable.

Variance analysis could also be used to analyse performance in 2008 (ie direct comparison of all changes between years).

Level 4	A reasoned evaluative conclusion on the performance of CEL as a whole and judgement based on the performance of individual parts of the business.	(16-10)
Level 3	Analysis of data carried out.	(9-6)
Level 2	Application/understanding of issues.	(5-3)
Level 1	Knowledge demonstrated.	(2-1)

2876 Further People in Organisations

- 1 (a) Other local coach companies increased coach driver pay rates by 21.67% between 2004 and 2008. Calculate the percentage increase for CCL in the same period. [2]

CCL paid £8.00 per hour in 2004 and £8.90 in 2008.

$$\text{Increase} = \frac{(0.90)}{(8.00)} \times \frac{(100)}{(1)} = 11.25\% (1)$$

For correct answer only award 2 marks.

- (b) Analyse two possible consequences to CCL of its rates of pay for coach drivers. [6]

The answer to part 1(a) indicates that the percentage difference between CCL's pay for coach drivers and the local average for other coach companies has progressively increased between 2004 and 2008. These figures may account for the reason Bob finds it difficult to keep labour turnover figures at an acceptable level and regularly finds that his drivers are tempted to work for other local operators. Bob also does not offer his coach drivers any fringe benefits which may only add to the labour turnover problem.

Also, there is driver shortage in the locality, Bob's payment policy may be the reason why CCL finds it difficult to recruit and keep coach drivers. As stated in the case study, the consequences are increasing levels of labour turnover, which means Bob often has to act as a driver. Some of the coach drivers take advantage of this and turn up late which annoys CCL's customers, which may gain the company a poor reputation/lose customers.

Furthermore, mistakes get made with hotel bookings and driver rotas because Bob is driving and Sally has not been trained sufficiently well.

Level 3	Analysis of the potential consequences of CCL's policy regarding coach driver pay.	(6-5)
Level 2	Application/understanding of potential consequences of different payment policies.	(4-3)
Level 1	Identification of possible consequences/knowledge of methods of remuneration.	(2-1)

- c) (i) Calculate CCL's rate of labour turnover for coach drivers in 2008. [2]

$$\frac{(9)}{(17)} \times \frac{(100)}{(1)} = 52.94\% (1)$$

For correct answer only award 2 marks.

(ii) Evaluate possible methods CCL might use to reduce levels of labour turnover. [16]

Based on the information given in the case study it is obvious that labour turnover is increasing every year at CCL. Table 1 clearly shows that coach driver pay rates on average at other local coach firms are also higher than CCL's, and Bob also will not offer any fringe benefits. There is also a local shortage of drivers with competing firms often tempting drivers to leave CCL.

Labour turnover levels have also increased as follows:

2004:	22.22%	2005:	29.41%
2006:	33%	2007:	43.75%
2008:	52.94%		

Also, we are told that drivers leaving CCL have told Sally (Bob's secretary) that they did not like Bob's autocratic attitude, and that he was too tight with his money.

This information would suggest that Bob should consider increasing his pay rates for drivers to reduce the likelihood of them being poached by other local firms and possibly identify some appropriate fringe benefits as part of the remuneration package. This would possibly encourage drivers to stay at CCL and make it easier to recruit and retain new drivers. It would also be less likely that other firms would find it possible to poach drivers from CCL.

The case study also indicates that Bob is not too good at managing his time and organising driver rotas, and that Sally is not always efficient at this task either. If mistakes are made, or drivers are not happy with the outcome of the rotas, this will probably annoy/de-motivate them. In order to avoid this having a negative impact on labour turnover, Bob and Sally will need to find ways of organising driver rotas more efficiently and effectively.

Furthermore, Bob will need to consider his own attitude/leadership style. If he were to try and be more democratic and form better working relationships with his drivers it might be less likely that they would want to leave CCL. However, it is not easy for someone like Bob to recognise the impact of his attitude/style or even less likely that he will readily be able to change.

There is also the problem with possible health and safety issues concerning some of CCL's older coaches. In order to alleviate the drivers concerns about this issue, Bob should concentrate on maintaining the coaches more effectively or even introduce a planned maintenance schedule. This might satisfy the drivers safety needs (Maslow) and make it less likely that they will leave.

There is obviously no correct answer to this question, but better candidates are likely to be able to analyse some of the above aspects drawn from the case study and form a conclusion about what might be the best method of reducing labour turnover, with some contextual justification.

Level 4	Evaluation of appropriate methods CCL might use to reduce levels of labour turnover.	(16-10)
Level 3	Analysis of appropriate methods CCL might use to reduce levels of labour turnover.	(9-6)
Level 2	Application/understanding of ways of reducing labour turnover.	(5-3)
Level 1	Knowledge of factors affecting labour turnover.	(2-1)

- 2 (a) Evaluate possible consequences to CCL of Bob's decision to summarily dismiss Pete Smith. [10]

In the case it suggests that the other drivers have threatened to go on strike unless Pete gets his job back. This would mean that relations between Bob and his drivers would worsen, and if they did go on strike CCL would be unable to operate contracts with local factories, the local council or operate the coach holidays.

If industrial relations deteriorated to this, or even a worse extent, it is possible that more drivers might leave, increasing labour turnover rates even more. CCL may also suffer adverse publicity, as the local media would be likely to report the fact that the drivers were on strike and why. This could affect CCL in terms of recruitment and customers, making it more difficult to recruit new staff due to a negative perception of CCL as a prospective employer, or a negative perception amongst current/possible future customers with regard to the company's reliability to provide holidays booked and paid for.

Furthermore, Bob does not appear to have any evidence that Pete Smith was actually responsible for any of the stolen valuables, only the fact that Pete was either driver/co-driver on the majority of the holidays affected. It would also appear that Bob did not carry out any investigations before summarily dismissing Pete. It is quite possible that Pete's solicitor may encourage Pete to take CCL to an employment tribunal, and due to the fact that there is little or no evidence against Pete, CCL could be made to re-instate him and pay him compensation for unfair dismissal. This may also result in more negative publicity, with similar results to those from publicity of the strike.

The morale and motivation of Pete's fellow drivers may also be affected and they may be less inclined to co-operate with Bob, and be even less likely to do anything more than their contract of employment requires them to do.

Level 4	Evaluation of the possible consequences to CCL of Pete's dismissal	(10-9)
Level 3	Analysis of the possible consequences to CCL of Pete's dismissal	(8-6)
Level 2	Application/understanding of issues relating to dismissal	(5-3)
Level 1	Knowledge relating to dismissal only	(2-1)

- (b) **Recommend how CCL should respond to the warning from Les Wilson regarding the reliability of some of CCL's older coaches.** [16]

Bob should take notice of Les' warning and service the old coaches more regularly because:

Bob has a duty of care to his employees and customers. We are not told of any accidents in the case study, however, we are told that Bob has been warned by the mechanic/maintenance supervisor of the deterioration of some of the older coaches, and the health and safety issues that may arise. Should either CCL's employees and/or customers be injured as a result of problems with the older coaches, Bob will not only be in breach of his duty of care but also of negligence, as he has been warned about the problem already.

If there were any accidents this could result in CCL (Bob) being held responsible, and as a result any injured parties would be able to claim damages against the company. At worst, if anyone was killed, Bob could face charges of "corporate manslaughter".

Bob also has to be able to demonstrate that he uses safe working practices, and can identify and minimise hazards by carrying out risk assessments and taking appropriate action to minimise any identified hazards.

If there were any accidents, it is quite possible that CCL could be visited/investigated by the Health & Safety Executive, and could be fined, or even closed down for any serious breaches of health and safety legislation. It could mean that drivers have to be laid off, or work less hours whilst any problems are rectified, with the danger that labour turnover rates increase as drivers seek better opportunities elsewhere. Once again, CCL could get bad publicity and a poor reputation as an employer and provider of services, with a negative impact on recruitment/retention of drivers.

He might decide to respond by doing nothing because he does not think that the problem is an important issue; he prefers to keep coaches on the road as opposed to being more regularly serviced/maintained.

Level 4	Evaluation in recommending a response(s) to the warning about reliability of some of the coaches.	(16-10)
Level 3	Analysis of a potential consequence of Bob's attitude to the increased unreliability of some of CCL's older coaches.	(9-6)
Level 2	Application/understanding of health and safety issues.	(5-3)
Level 1	Knowledge of health and safety issues only	(2-1)

(c) Analyse two benefits to CCL of it recognising a drivers' trade union. [6]

Bob is described as autocratic in the case study. He does not appear to have a good relationship with his drivers and they resent his attitude/approach. This could be a contributing factor to high and increasing levels of labour turnover. If he recognises the drivers' right to join the union, levels of labour turnover might decrease as more drivers may feel more secure in their jobs and, therefore, decide not to leave. CCL may also find that industrial relations might actually improve as a result of more communication/negotiations between the workforce and management, with the union as a go-between or facilitator of these communications.

Bob's style could also account for why he dealt with Pete Smith's dismissal the way he did; not investigating the problem before he summarily dismissed him. This has created a potentially poor industrial relations environment and has put the business in a compromising position with regard to employment law and reputation. If Bob recognises the union this will probably mean that he will have to deal with any such future issues in a more sensible and considered way, knowing that the trade union will be able to advise/support its members. The benefit would, therefore, be that Bob would not be able to act so hastily and may pre-empt rather than compound the problem. This will save time and money.

The drivers may decide to withdraw their labour/go on strike which will affect CCL's ability to operate its contracts/trips/holidays, etc, with a negative impact on income, reputation, customer relations, but with union membership they will be better advised about possible courses of action and will have to operate within the law.

Level 3	Analysis of the benefits of recognising a trade union at CCL.	(6-5)
Level 2	Application/understanding of trade union membership.	(4-3)
Level 1	Knowledge about trade union membership only.	(2-1)

2877 Further Operations Management

1 (a) Analyse two benefits to TTNC of having a multi-skilled workforce. [6]

A multi-skilled workforce is one that can respond to any changes affecting a business' operations. For example:

- *if a worker is absent, then another colleague can fill in preventing the need for temporary workers to fill in – less need to hire in subcontractors or specialist workers;*
- *if a job needs to be completed quickly, then all workers can carry out a wide range of tasks. This should increase productivity at TTNC;*
- *allows TTNC to be a more flexible firm when it comes to taking on more orders;*
- *workers will be trained and can carry out a variety of tasks. This could lead to improvements in motivation, job security, labour turnover figures, etc.*

Level 3	Analysis of benefits to TTNC of having a multi-skilled workforce.	(6-5)
Level 2	Application/understanding of the benefits of having a multi-skilled workforce.	(4-3)
Level 1	Knowledge of the concept of multi-skilled working.	(2-1)

(b) Analyse two ways work study might help improve productivity at TTNC. [6]

Work Study – A process which investigates the best possible way a business can use its resources. It is also called time and motion study.

Work measurement and method study combine to become work-study.

It is associated with FW Taylor

Candidates may analyse any of the following issues:

- *Looking at the processes which are used to build the boats/maintain the hire boats, can any be removed, amalgamated, etc?*
- *Can the layout be changed at the boatyard?*
- *Can workers work in teams to reduce their movement or the movement of the products? Boats do not move – workers work on them in situ.*
- *Can newer, more efficient machines or tools be used? Unlikely as this is quite a small business.*
- *Might provide information for Jon to help with planning and estimating.*
- *Might different incentive schemes (eg, performance related pay) be used to motivate employees*
- *Candidates might discuss ergonomics in terms of layout of the equipment used, etc.*

Level 3	Analysis of how TTNC might use work-study to raise productivity levels at its factories.	(6-5)
Level 2	Application/understanding of how work study might be used to raise productivity levels.	(4-3)
Level 1	Knowledge of the concept of work-study.	(2-1)

(c) **Evaluate how changes in the external environment might affect operations at TTNC.** [16]

Candidates may approach this question from a variety of angles. They may adopt a PEST approach or they may adopt a pragmatic approach looking at various external constraints on the business. Some have been mentioned in the text. The following is a general guide and other appropriate responses should be given credit.

- *Political – legal constraints on operations such as health and safety, laws concerning pollution/emissions and noise, etc. Also, regulations and standards concerning the building of boats.*
- *Social issues – the change in demand for leisure holidays and the growing use of the canals. The demand for canal holidays has risen as people take short breaks.*
- *Economic factors - the business is dependent on the prosperity of the economy eg economic growth and rising consumer incomes; interest rates (boats are expensive to buy), the housing market (some people choose to live on their boats), government regulation of the waterways – it might privatise BWB.*
- *Technological factors – new equipment for boats, fuels, etc.*
- *Environment - whether the environmental lobby is influential or not, boats are not considered to be particularly harmful to the environment – indeed restoring canals for boating is considered to be environmentally acceptable. There are some environmental costs though, eg waste disposal from increasing numbers of boats using the waterway; and savings, eg saving the stone company money for landfill tax by recycling its waste.*

Level 4	Evaluation of how the external environment impacts on operations within the context of TTNC.	(16-10)
Level 3	Analysis of how the external environment impacts on operations within the context of TTNC.	(9-6)
Level 2	Application/understanding of how the external environment impacts on operations.	(5-3)
Level 1	Knowledge and understanding of how external environmental factors impact on business in general.	(2-1)

- 2 (a) Using the figures in Table 1, calculate the number of “*typical 60 foot narrowboats*” TTNC would have to construct in the proposed new boatyard to breakeven. [4]

*New direct cost of a 60 ft narrowboat is £1350 * 60 = £81,000* [1]

New price of a 60 ft narrowboat is £1650 per foot or £99,000 [1]

Contribution is £300 per foot / or £18,000 per boat [1]

Overheads/contribution = £180,000/£18,000 = 10 boats

Correct answer award 4 marks

- (b) Discuss the operational implications for TTNC of increasing its capacity from eight to 20 boats per year. [10]

There could be a number of operational issues arising from the expansion.

- *Can TTNC find enough labour to staff the new larger business? Are there enough workers who are flexible and multi-skilled to fit in with the demands of the business?*
- *Are there workers with appropriate skills available?*
- *Will TTNC have space for the increased quantity of stock it will need to hold?*
- *Can it easily source the additional supplies of materials?*
- *As the scale of operations would change candidates might mention the possibility of gaining economies of scale. Accept this although the business would still be quite small.*
- *Will TTNC have to change its method of production from job to batch?*
- *Will TTNC have to outsource more parts of the production process?*
- *Can TTNC maintain the high levels of quality it currently achieves in a bigger business?*
- *Will Jon be able to manage the new larger business?*

Level 4	Evaluation of the operational implications for TTNC of doubling capacity from eight to 20 boats per year.	(10-9)
Level 3	Analysing the operational implications for TTNC of doubling capacity from eight to 20 boats per year.	(8-6)
Level 2	Application/understanding of the operational implications of doubling capacity.	(5-3)
Level 1	Knowledge and understanding of the operational implications of doubling capacity of a business in a general context only	(2-1)

- (c) Evaluate the implications of splitting operations at TTNC into two separate businesses. [16]

Candidates might take a number of approaches to this question. They might point out how the two businesses are different, for example:

- *They operate in completely different markets.*
- *The resources used in both businesses are different.*
- *Staff at TTNC are not transferable between the businesses.*
- *Demand for one – hire – is a seasonal, demand for the other is all year round.*
- *They are (probably) managed in different ways.*
- *One is a service business and one is a manufacturing business, therefore, they face totally different business problems.*
- *Makes it easier to sell one part of the business, if they are split in two.*

However there may be arguments for not splitting them, for example:

- *They are complementary – the boat building business did at one time make hire boats and they could carry out maintenance.*
- *The cash flow side of the business is helped – the hire company brings regular cash into the business, whilst the boat building business is likely to have possible cash flow problems.*
- *One is seasonal – the hire business brings in little revenue in winter – the boat building can continue.*
- *Would the boat building business survive on its own – it is very dependant on the incomes of potential buyers as the boats are very expensive. What happens in a recession?*

Level 4	Evaluation of the implications of splitting operations at TTNC into separate boat hire and boat building businesses	(16-10)
Level 3	Analysing the implications of splitting operations at TTNC into separate boat hire and boat building businesses.	(9-6)
Level 2	Application/understanding of the implications of splitting operations into separate businesses.	(5-3)
Level 1	Knowledge of the implications of splitting operations within a business.	(2-1)

2879 Business Thematic Enquiry

Marking Strategy

This unit 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 unit 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.

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

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 for 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.

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

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.

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

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.

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

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 such as an 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 long term survival 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.

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

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.

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

Criterion 7: Evaluation, recommendation or strategy development**(15 marks)**

This criterion looks for the 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 an 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.

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

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.

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

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.***

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

General

It is expected that a comment (up to three sentences) will be written at the end of all scripts marked. The purpose is to highlight the strengths and/or weaknesses of each script.

2880 Business Strategy

1 Recommend methods BCC could use to improve its employees' contribution to objectives. [18]

Analysis of Appendix 2 shows

	<i>Shift A Early</i>	<i>Shift A Late</i>	<i>Shift B Early</i>	<i>Shift B Late</i>
<i>Absenteeism</i>	2.46%	3.86%	1.58%	2.46%
<i>Accidents</i>	0.12%	0.15%	0.04%	0.10%
<i>Waste</i>	6.00%	8.00%	5.00%	7.33%

So, late shifts are less effective than earlies, and shift B seems to be better than shift A. These differences suggest that technology cannot be the root cause. Similarly, the effectiveness of the employees cannot be due to materials used. Together, the differences point to the employees themselves and how they are led and motivated.

The data in Appendix 2 shows that Friday and Monday are "problem" days. However, does absenteeism on a Friday matter too much if the product has to be with the customer on the Thursday night to be on the shop shelves for the weekend shop? But, this is for chilled product, so it is reasonable to assume that the spare capacity can be used to produce other items (cakes, puddings, desserts).

Objective is to grow sales and improve gross margin. Gross margin only possible if prices can be raised, or unit costs can be lower. This suggests that a pay rise, whilst increasing effectiveness through motivation (Taylor) would run counter to finance objective unless accompanied by an improvement in efficiency. Note also labour intensity, so even a modest pay rise will have a significant increase in wage bill, eg another £0.10 per hour could mean £188,240 pa. The company's ability to lower material costs, to keep unit costs down, has a quality implication and this may not be acceptable to customers, especially the two described as "premium".

High labour turnover, low pay, absenteeism, short average service, MNW + 10p, threats of dismissal for disciplinary reasons all point to a poor place to work. Might the problem be recruiting the wrong people, who therefore don't stay, or the awful experience of work? That Directors don't communicate might mean that there is a culture of a lack of effective communication, leading to low morale on the production floor.

Overall, does it really matter? Sales are consistently rising, things are looking good, the firm is profitable, expanding and in a growing market.

Level 4	Discussion of method(s) is evaluative in balancing different possibilities	(18-13)
Level 3	Case material is subject to analysis in suggesting or supporting method(s) of improving employee contribution to objectives.	(12-8)
Level 2	Application/understanding of method(s) of improving employee contribution.	(7-4)
Level 1	Knowledge of employee contribution to objectives.	(3-1)

2 Discuss how unemployment might affect BCC's ability to reach its 2010 objectives.**[19]**

Unemployment is an external factor which impacts both internally and externally.

Internally. Reduces upward pressure on wages given the nature of the skill enjoyed (?) by the production staff. The skill profile of the unemployed is likely to be unskilled, so current staff become more readily replaceable. Given the labour intensity of the process any ability to keep wages low will help to improve profitability and so reach the 1% increase in gpm as an explicit objective.

Increased unemployment might reduce the willingness of staff to leave, so reducing recruitment, selection and training costs, again boosting profits (but this time net margin). If market demand falls then might need to reduce headcount.

Externally. Market, firm produces an indulgence product, so if average incomes fall (or don't rise as much as before) then sales are likely to fall. Data for YED is +1.5, so demand is income elastic, product can be described a "normal". If market demand falls then ability to expand is hindered. But need to consider how accurate this data is. Further, does it apply to the entire product range? At a time of falling incomes, and a generally pessimistic economic outlook, some consumers might feel that economising by not having a wee cake every week is no big deal, so demand may still remain buoyant for several of the business' products.

Growth objective is made tougher unless they can win business from competitors in a falling market.

Response might be to resurrect bakery side of the business. No mention of this at the moment but the case says "recent growth in the bakery and premium dessert market" so if sales of indulgence products fall then switch to a more staple product – bread.

Possibly use Table 2 – Boston Matrix – to argue focus on certain products; desserts seem to be the star! But, does the firm have the finance to invest in this product type – currently 58.4% geared so the ability to raise additional finance will be limited. Would parent be willing to invest in a falling market?

Response also depends on the nature of the unemployment; regional, structural etc.

Response will be different for small changes compared to large sudden ones.

Level 4	Evaluation of different impact(s) in context.	(19-14)
Level 3	Analysis of possible impact(s) of unemployment is supported by case material	(13-9)
Level 2	Application/understanding of impact(s) within the context of unemployment.	(8-5)
Level 1	Knowledge of unemployment or impact(s)	(4-1)

3 Should BCC accept the order from Price Pulverizer? Justify your view. [19]

Capacity is about to be reached, see Appendix 1. Candidates might use TSA, or some less formal forecasting method, to show that this will happen in Qtr 4. So, current growth in sales means there will soon be insufficient capacity. In which case say “no” but don’t achieve the aim of winning a fifth big customer. Do they need this order, what does it bring to the firm? Is it compatible with the aims and resources available?

Other contribution/special order issues are pertinent. But it also needs to be seen as what markets do they want to be in etc. Use of Ansoff (market development) and comparison of risk and reward – low risk and low reward.

Impact on other customers, might eg M&S and Waitrose walk away if BCC sell to PP? If so, it leaves a gaping hole on the order book. Is there enough spare capacity in the industry for them to realise this threat?

Told makes a positive contribution, but lower than the average. Also, what if PP change the product mix of their order and so take more chilled with a low margin and less desserts with a higher margin? However, lower than the average might be better than the worst, so take PP and say goodbye to the worst customer in terms of contribution (unless that is someone who takes a really big slice of the order book). Other problems identified in the case, eg more complex manufacture due to wider range of raw materials. Longer credit terms, BCC currently take 106 days to collect payments from existing customers – we’re told in the case that PP want even longer. Other customers may then want the same credit terms.

Also highlight issue of communication. Might well want to accept the order given they are so far down the line, but then use this as a strategic opportunity to reassess who has what authority for new orders in the future.

Level 4	Discussion is balanced in evaluating recommendation	(19-14)
Level 3	Analysis of case material in support of recommendation	(13-9)
Level 2	Recommendation is supported by descriptive use of the material	(8-5)
Level 1	Offers a view without support	(4-1)

4 Evaluate the factors BCC should consider when deciding whether to move to the Coventry site [20]

1. *Value as an investment decision, does this beat the current performance across three sites?*

	Coventry	Kenilworth
Capital cost, £m	£25	£28
Increase in gm	1.6%	2.1 %
Est increase in profit, £m, pa	£1.064	£1.4
Pay back, years	23.496	20.00
ARR	4.256%	5.00%

From an investment appraisal, Kenilworth slightly shorter PBP (3.5) and better ARR (0.744%) but looking at the figures themselves suggests it is too close to call using these criteria.

2. *Capital cost. Case tells of access to Lucon's finances. Sale of the three sites would yield £35m, but the business has £30m of borrowing which, if secured in these assets, leaves £10 – 7m. Coventry is £3m cheaper but doesn't offer the increase in gpm that Kenilworth does. What is more important to the firm? Capital outlay or profitability? Can't sell existing sites until the new one is up and running – so need for some temporary bridging finance, but from where?*
3. *Operational risk - single site operation, eggs all in one basket. But improvement in communication and co-ordination. Might also need to consider how the change over is put into place – need to have new site open and able to produce output before closing the three existing sites.*
4. *Room for expansion, market growth suggests an extension might be necessary in the near future.*
5. *People, redundancies, too far to redeploy workforce. But, average length of service means not all would qualify under EPCA, also pay just above NMW wage so any payment likely to be small. Replace ability of the workforce, described as being unskilled, so need to consider local labour market.*
6. *Access to market, access for process inputs. Both sites have easy access to motorways so not really that different.*

Level 4	Evaluation of factor(s) in the context of the case study	(20-15)
Level 3	Analysis of material supports discussion of relevant factor(s)	(14-9)
Level 2	Application/understanding of the factor(s)	(8-4)
Level 1	Offers an unsupported series of factor(s)	(3-1)

Grade Thresholds

Advanced GCE Business Studies (3811/7811)
January 2009 Examination Series

Unit Threshold Marks

Unit		Maximum Mark	A	B	C	D	E	U
2871	Raw	45	34	31	28	25	22	0
	UMS	90	72	63	54	45	36	0
2872	Raw	45	29	26	23	21	19	0
	UMS	90	72	63	54	45	36	0
2873	Raw	60	37	33	29	26	23	0
	UMS	120	96	84	72	60	48	0
2874	Raw	60	35	31	28	25	22	0
	UMS	90	72	63	54	45	36	0
2875	Raw	60	39	35	31	28	25	0
	UMS	90	72	63	54	45	36	0
2876	Raw	60	39	35	32	29	26	0
	UMS	90	72	63	54	45	36	0
2877	Raw	60	36	32	28	25	22	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	63	58	53	48	0
	UMS	90	72	63	54	45	36	0
2880	Raw	80	55	49	44	39	34	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	9.8	31.7	63.9	86.6	98.8	100	414
7811	10.9	41.3	71.7	95.7	97.8	100	51

465 candidates aggregated this series

For a description of how UMS marks are calculated see:

http://www.ocr.org.uk/learners/ums_results.html

Statistics are correct at the time of publication.

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