GCE

Business Studies

Advanced GCE **A2 7811**

Advanced Subsidiary GCE **AS 3811**

Mark Schemes for the Units

June 2006

3811/7811/MS/R/06

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MARK SCHEMES FOR THE UNITS

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Mark Scheme 2871
June 2006

General

1 The paper is to be marked to AS standard

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and (c) their grammar, punctuation and spelling.

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1 Barry and Mick have both been on a government financed training scheme (Line 19-21). This is designed to help meet the government's objective of low unemployment.
State <u>two</u> other government macro-economic objectives. [2]

Low inflation/stable inflation/falling inflation etc. Do not accept just "inflation"!

Growth/a better standard of living/rise in GDP/"more goods & services"/people getting 'better off 'etc

Balance of payments equilibrium/"Good balance of trade"/more exports than imports"/ some notion that the UK must "pay its way" internationally etc.

Fairer distribution of income/wealth

Level 1: 2 x 1 Mark

2 Analyse how GS Employment might benefit from setting clear objectives. [9]

Allow references to tactical or/and strategic objectives. There is no necessity to answer in the 'SMART' framework.

Objectives are targets for a firm to reach. There will now be clarity as to what is to be achieved - this is very important in a new business. Barry, Mick and Ellie should not allow their new business to 'drift along' – the first months/year(s) can be crucial.

Objectives are usually quantifiable and if this is done then Barry and Mick can use them to measure success. Reviewing success provides a guide to future courses of action.

Mr. Godber makes it clear (line 83) that the bank wants to see Barry's objectives if the money is to be forthcoming from the bank. Without the loan then the money will have to be raised in some other way – are there any other options? Or the business may not ''get off the ground" at all.

Objectives are an essential part of GS's business plan. Setting strategic objectives will then help them focus on tactical ones. They will provide a basis for decision making.

With clear objectives everyone in Barry, Mick and Ellie's firm will know what they are supposed to achieve. This should improve coordination of the business' activities leading to the achievement of their strategic objectives.

Level 3:	*Some analysis of benefit(s) from clear objectives in context.*	*(9-8)*
Level 2:	*Some application/understanding of issue(s).*	*(7-4)*
Level 1:	*Knowledge of business objectives.*	*(3-1)*

3 ***Other than setting clear objectives*, evaluate the influences that are likely to affect the success of GS Employment.** **[14]**

ARA in the context of sections 1 (What businesses need) &/or 5 &/or 6 (external and other influences) of the specification.

- A clear business plan.
- Regular evaluation of progress towards objectives.
- Having sufficient finance. Will the bank grant the loan? If it is prepared to lend, then given GS' set up will the bank 'play safe' i.e. will it be for the full amount? Will the terms attached be penal?
- Adequate cash flow - accept "enough money to pay the bills/break even" etc.
- Appropriate advertising - detailed application is not required. Accept "getting/keeping the firm known"
- Commission the firm charges for supplying workers.
- Commission charged by other agencies (i.e. substitutes).
- Getting reliable workers. As the firm gets larger the people they send out to sites will be outside their circle of acquaintances. Will this mean less reliable staff? Implications for their reputation?
- A degree of luck e.g. in getting contracts/committed staff etc.
- Whether the workers actually remain committed to a crime/drug free lifestyle - there are implications for the business' reputation if they are not.
- The business cycle? If the economy slows down building is likely slow affecting the amount of work done and workers demanded .Vice versa. Would 'Ellie's girls' offset this?
- Adherence to the law; minimum wage, Employment legislation etc.

Candidates could discuss what is meant by 'success'. What constitutes "success" for Barry and Mick will surely change over time. Initially it might simply be surviving or breaking even, whereas in future it may be growth. Candidates recognising the difference between the short and longer term in this context should be rewarded accordingly.

Level 4:	*Some evaluation of the influences.*	*(14-11)*
Level 3	*Some analysis of factor(s) in context*	*(10-7)*
Level 2:	*Some application/understanding of issues (s)*	*(6-4)*
Level 1:	*Knowledge stated about factors influencing business success.*	*(3-1)*

4 One of the decisions facing Barry and Mick is whether they should form a private limited company (Line 92).

Outline two ways in which a private limited company is different to a public limited company. [4]

ARA! <u>But to get to Level 2 the difference must be outlined not just implied.</u> e.g. "A plc has shares available for sale to anyone through the Stock Exchange" is Level 1 not Level 2.

A public company:

- *has shares sold on the Stock Market.* Ltd does not.

- *Plc's shares are sold to anyone.* Ltd has to sell shares via private negotiation/cannot advertise shares for sale to the public.

- *No restrictions on share sales/transfers in a plc. Ltd may have restrictions on share sales/transfers.*

- *The name; public company is 'plc'.* A private company must end with 'Limited/Ltd'.

- *Plc needs more detail in its Report and Accounts. – N.B. accept responses such as "In a private company, reporting/accounting is less complicated"*
  Do not accept "Private Limited companies do not have to disclose their accounts": <u>The accounts of all companies are on open access at companies House</u>.

- *In a plc minimum share capital is £50,000*. Ltd has no minimum*.*

- *In a plc minimum number of shareholders is 2. Ltd is 1.*

- *plc's are usually larger. Private companies tend to be smaller/"often found in family businesses "*
  etc.

Level 2:	*Difference(s) outlined*	*(4-3)*
Level 1:	*Differences stated*	*(2-1)*

5 ***"We should become a formal partnership. It's the best way to run the business" (line 105). To what extent do you agree with Barry's view?*** **[14]**

The choice will depend on the candidate's perception of the advantages and disadvantages of each type of business organisation to Barry, Mick and Ellie.

A partnership *is not a legal entity in its own right. Partnerships have greater privacy and tend to have fewer legal formalities than a company. This may well suit them as they have hardly ever had formal jobs let alone run a business (!). In a partnership each partner is responsible for the debts of the business and for decisions made by the other partners. and if it "all goes wrong" Barry, Mick and Ellie will have unlimited liability.*

However as Mr. Godber has pointed out they are not a 'proper' partnership at the moment. They are just friends working together. Candidates could argue that this is the best form of organisation for them but that it must be formalised.

If they choose to operate as a partnership, a Deed of Partnership should certainly be drawn up. *The current informal set up must be formalised or there are likely to be problems sooner or later e.g. over share of profits, division of responsibilities, procedure for taking on new partners, dissolving the partnership etc. If they "fall out" there will be even more problems if there is no Deed.*

A company is *a legal entity in its own right. However they do not just 'become' a company. There are legal documents (Memorandum and Articles of Association) to be completed. Setting up a company might take some time and be more expensive to establish. As shareholders in a company, Barry, Mick and Ellie (and any others) will enjoy limited liability. Becoming a company* might *encourage the bank to be forthcoming with the loan.*

Will there be new shareholders? How likely is it that investors will want to be associated with this firm given the 'past history' of those running it?! If there are to be new shareholders then there may be control issues. Barry, Mick and Ellie need to recognise this.

A company will have continuity – this fact may be important if Barry and Mick want to pass on the business to their children. Creditors may be wary of a very small company and might insist that the Barry and Mick take some personal specified responsibility for debts. The running of the company will be more formal than a partnership; directors have legal duties (detailed knowledge is not required) and the company will have to produce a formal set of accounts. Could Barry and Mick do this or will they have to have the expense of an accountant? Accounts will be more open to scrutiny in a company. Is this what they want?

Level 4:	*Some evaluation of the most appropriate form of organisation).*	*(14-11)*
Level 3	*Some analysis of factor(s) in context*	*(10-7)*
Level 2:	*Some application/understanding of issues (s)*	*(6-4)*
Level 1:	*Knowledge of partnerships and/or private limited companies*	*(3-1)*

Mark Scheme 2872
June 2006

General

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1 **Outline <u>two</u> economies of scale which Whitbread could achieve from the purchase of the Premier Lodge chain. [4 marks]**

- *Bulk purchasing – of items for the hotels and their restaurants*
- *Technical economies due to increased use of computers e.g. for bookings or stock control*
- *Marketing – reducing advertising costs per hotel/saving due to the rebranding*
- *Specialisation – particularly of management roles*
- *Any other point explained in a relevant manner.*

Some understanding of how unit costs are lowered /savings created for Whitbread.

Level 2	Types of economies of scale outlined/applied to the business.	4-3
Level 1	One or two types of economies of scale stated.	2-1

2 **Assume the net cash flow from a room is £40 per night and that over a year there is 80% occupancy of each room.**

(a) Calculate how long it would take the Whitbread's investment in Premier Lodge to pay back. [5 marks]

365 nights x 80% occupancy = 292 nights [1]
292 nights x £40 = £11,680 per room [1]
£11,680 x 10,000 rooms = £116,800,000 = £116.8m [1]

Apply OFR to the order of the calculation as appropriate. Other variations include:

365	x	£40			=	14,600			
365	x	10,000			=	3,650,000	=	3.65m	
£40	x	10,000			=	400,000	=		*[1 mark]*
£40	x	80%			=	32	=		
80%	x	10,000			=	8,000	=		
365	x	£40	x	10,000	=	146,000,000	=	146m	*[2 marks]*
40	x	80%	x	10,000	=	320,000	=		

Investment = £505m + £32m = £537m [1]

£537m /£116.8m = 4.5976 years or 4 years 7 months [1]

Apply OFR as appropriate.

(b) Discuss how useful investment appraisal techniques might have been to Whitbread in the decision to purchase the Premier Lodge chain. [12 marks]

Consideration of the advantages and disadvantages of using payback or accounting rate of return to help make investment decisions. Which would be better to use and why? Is the payback period calculated (OFR) reasonable? How valid are the figures anyway? Where has the return on the total investment figure of over 10% in the second full year come from? Is this realistic?

Is this a only a financial decision? What other factors may need to be considered? Some judgement as to how important these other factors are and whether they outweigh the quantitative results of investment appraisal techniques.

Apply OFR from part (a) as appropriate.

Level 4	Evaluation of the usefulness of the techniques and their relative importance to Whitbread's decision to purchase the Premier Lodge Chain.	12-9
Level 3	Analysis demonstrated by considering the implications to Whitbread of using these techniques for decision making.	8-6
Level 2	Understanding of concepts involved is demonstrated.	5-3
Level 1	Appropriate concepts and issues identified.	2-1

3 (a) Calculate the percentage potential market share that the new Premier Travel Inn group will have of the branded budget hotel market [2 marks]

29,141 /63,000 x100 = 46.26% *[1] for process + [1] for answer*

Apply OFR as appropriate.

(b) Evaluate how Whitbread might promote the newly created Premier Travel Inn hotel chain. [12 marks]

Decisions about whether to use the same promotional methods as before. Consideration of appropriate above and below the line methods. What new promotions does it need to undertake to launch the new brand of hotels? How long should it do this for before the new brand is established? What is the budget available for promotions? To what extent will the cost of the changing the brand – signage, printing marketing materials and stationery as well as any items with the company logo on it have an impact on the choice of media to promote the chain. Also the need for new website design and its role in promoting the hotels.

Consideration of the need to make sure that the customers are not too confused by the new branding while being sufficiently similar to the old Travel Inn brand so they are not distracted by it. Also how the promotions chosen will ensure that the newly created chain is differentiated from the competition – need to maintain the market leader position. The choice of promotions to position the newly formed chain to take advantage of the UK city break market.

Consideration of the role of market research in informing decision about promoting the business. How valid is the research in the data as Premier Lodge has now become part of Travel Inn?

Level 4	Evaluation of the ways of promoting the new hotel chain and their relative importance.	12-9
Level 3	Analysis demonstrated by considering the implications of the ways of promoting the new hotel chain.	8-6
Level 2	Understanding of concepts involved demonstrated.	5-3
Level 1	Appropriate concepts and issues identified.	2-1

4 Using appropriate motivational theory, analyse the methods used by Travel Inn to motivate its staff. [8 marks]

Use of appropriate motivational theory e.g. Taylor, Mayo, Maslow, Herzberg as a framework to judge how effective the strategies are or the extent to which they are effective.

- *Taylor – the use of money to motivate – is this the main reason for people working at Travel Inn? Do workers shun responsibility?*
- *Mayo – to what extent are motivators other than money important? How are social needs/groups being used in the business? How are groups formed? Are job teams moved around?*
- *Maslow – does the hierarchy work in the context of this business? Is there potential to move up the hierarchy?*
- *Herzberg – can hygiene factors and motivators be identified?*
- *Any other motivational theory used appropriately.*

N.B McGregor's Theory X and Y – this is a theory of how management styles impact on workers and their attitude to their work and not a motivational theory.

Level 3	Analysis demonstrated by considering the implications of the motivational strategies used in context	8-6
Level 2	Understanding of theories involved is demonstrated	5-4
Level 1	Appropriate concepts and issues identified	3-1

Question	*A01 Knowledge*	*A02 Application*	*A03 Analysis*	*A04 Evaluation*	*TOTAL*
1	2	2			4
2 a	3	1	1		5
b	2	3	3	4	12
3 a	1	1			2
b	2	3	3	4	12
4	3	2	3		8
Total	*13*	*12*	*10*	*8*	*43*
QWC					*2*
PAPER TOTAL					*45*

Mark Scheme 2873
June 2006

General

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1 (a) (i) Calculate the percentage change in total revenue for the chocolate drink between January and February. [3]

Total Revenue in January	=	*2300 x £2.20*	*= £5,060*	*(1)*
Total Revenue in February	=	*2410 x £2.00*	*= £4,820*	*(1)*
Percentage change in revenue	=	*£240/£5,060*	*= 4.7% (5%)*	*(1)*

OFR

(ii) Calculate the price elasticity of demand for the chocolate drink between January and February. [3]

Price Elasticity of Demand = $\frac{\text{Proportionate Change in Demand}}{\text{Proportionate Change in Price}}$

$= \frac{110/2300}{0.2/2.2}$

$= \frac{0.048}{0.91}$ [or $\frac{4.8\%}{9.1\%}$] ***(1)*** ***(1)***

= 0.53 (Allow 0.5) ***(1)***
(Ignore signs)

Alternative answer:

$= \frac{110/2410}{0.2/2}$ ***(1)***

$= \frac{4.6\%}{10\%}$ ***(1)***

= 0.46 (allow 0.5) ***(1)***

OFR

(b) Discuss whether knowing price elasticity of demand is useful to RNG in setting the price of the chocolate drink. (10)

Price elasticity of demand shows the relationship between a change in price and the demand for that product. It is usually negative as this shows that a fall in price will lead to a rise in demand and vice-versa. The relative size of the change in demand compared to the price change is shown by the number found. The PED in February of 0.5 suggests the demand for the product is price inelastic; a relatively smaller change in demand than in price.

If a business such as Café Nervosa knows the PED it can predict how people will react and so can plan its pricing strategy more accurately. However, as can be found in Table 1 the PED for a product does not remain constant - the results from Table 1 are November 1.4, December 0.9, January 0.5, February 0.5, March 1.8. So is the chocolate drink price elastic or price inelastic? This shows that there are other factors to consider that affect PED.

If the product is price elastic then RNG should reduce price to increase sales revenue. However, if the product is price inelastic, as in December and January, the correct strategy is to increase price to raise revenue.

Ruth's comment about sticking to one price for the whole of next year does not fit in with the evidence so far obtained. There are clearly other factors that affect demand, such as the weather, which means that PED will change from month to month. Elasticity only provides the basic information for decision making. It must be used in conjunction with other information.

The product has only been on sale for six months. Maybe Ruth is being optimistic that she has sufficient evidence to make any sort of long-term decision yet. She certainly needs to take into account the seasonal nature of the product which means that it is unlikely that a year round price is the best option.

OFR/ARA

Level 4	Evaluation shown of the relevance/limitations of price elasticity of demand in helping Ruth & Nick set the price of the chocolate drink.	(10-9)
Level 3	Analysis of the usefulness of price elasticity of demand with specific consideration of the context relating to Café Nervosa.	(8-6)
Level 2	Understanding shown of how price elasticity of demand may be useful in making decisions about price.	(5-4)
Level 1	Theoretical knowledge of price elasticity of demand or its uses.	(3-1)

2 Table 2 shows the waste levels last year for each café owned by RNG. Using this and <u>any other relevant data</u>, evaluate methods that RNG may introduce to reduce waste levels across all of their cafés. [16]

Ruth has ruled out TQM in the next five years; it may be an option to highlight that the business could move towards in the future. However, the focus of any answer should look at possible ways to reduce waste that may include the following:

<u>Kaizen</u>: A philosophy of continuous improvement akin to what Vanessa seems to imply she has followed. Everyone is responsible for quality and reducing waste. This may be difficult given the current labour turnover present at RNG and the large number of seasonal or part-time staff. Better recruitment and training will also be necessary to ensure that workers are sympathetic to this ethos and know what is expected of them. Empowerment is a vital component of Kaizen which may be true for the café managers if they work independently of Ruth and Nick. This may be the case given the amount of freedom that Vanessa had in making changes and the fact that Ruth seems to know little about what Vanessa has done.

<u>Quality Circles</u>: Often part of Kaizen, but also independent. Groups of employees meet to discuss issues related to their work. Not really appropriate in the cafés themselves as they only employ a handful of staff each. However, it may be suggested that one or more employee from each site meet together regularly to discuss ways to reduce waste. However, Vanessa herself suggests that this may be a problem as 'each store is different, each with its unique characteristics'. Also, would it be feasible to meet during working hours due to the large area covered but also given the low staffing levels at each site - will each site be able to cover the necessary staff absence?

<u>Benchmarking</u>: Measuring the business against best practice elsewhere. Usually carried out on separate aspects of the business. Table 2 suggests that waste levels are best in each of the four categories at the Eastbourne site. This will put an undue burden on Vanessa and her staff as they will be the subject of investigation and shadowing by each of the six other sites. It may also lead to a feeling of envy by the other six café managers. Vanessa and her site are being held up as an example in ALL areas; this may appear demeaning to the other stores. Maybe a better option would be to include some external benchmarking.

Other possible methods that may be discussed include implementing ISO 9000, carrying out a waste audit to identify the source of problems and training. Candidates may ask whether the business can afford these suggestions and whether the benefits outweigh the costs in the long-run. Another more radical suggestion may be to promote Vanessa to being a quality manager overseeing all the sites, directly reporting to Ruth and Nick

ARA

Level 4	Evaluation of waste methods shown by supporting any judgement shown, weighting of arguments, considering suitability and/or consideration of long- and short-term issues.	(16-13)
Level 3	Analysis of the relevance of methods to reduce waste levels with specific reference to the situation(s) that RNG find themselves in.	(12-9)
Level 2	Understanding shown of potential methods that RNG may use to reduce waste.	(8-5)
Level 1	Knowledge of issues related to quality and/or waste levels.	(4-1)

3 Discuss ways in which the recruitment and selection process may be improved throughout all the RNG sites. [16]

The recruitment process is a vital part of any businesses human resource planning. It includes identifying necessary vacancies, advertising them appropriately and ensuring any new staff are able to work efficiently as quickly as possible.

The recruitment of staff does appear to be rather informal and haphazard at the Brighton-Seafront site; is this typical of the other sites? Given the significant need to recruit both permanent and seasonal staff across the seven sites it is surprising that RNG does not have a more formal and efficient system of recruitment. The evidence in Table 3 of increased labour turnover may suggest that the recruitment process is not working, although it would be useful to know what the labour turnover is at similar businesses - this sort of industry typically does have a high labour turnover.

Clearly, a more formal method of advertising would be a start. Too much reliance on people appearing to ask for a job or a friend/relative of a current employee may mean that unsuitable people are given a job. Relatively basic steps such as advertising in the local newspapers/job centre etc. and a simple application form would enable the café managers to have a wider pool of potential employees to choose from as well as being able to see what relevant experience or qualifications an applicant may have. An even better suggestion would be for a job description and/or person specification to be produced for all the sites so that individual café managers know what they are looking for. This would also allow Ruth and Nick to have some central control.

From what Jessica and Amelia say it would appear that there is no written contract or written job details. Again, these would help café managers to have better control of employees and be able to deal with situations such as the one in the case study. There would be less chance of misunderstandings and a better chance of solving disputes.

The recruitment and selection issue is likely to be linked not only to the high labour turnover but also to the waste and budgeting problems. If Ruth and Nick want to improve all of the other problems it may be impossible without a well trained and motivated set of employees

ARA

Level 4	Evaluation shown of implementing any new recruitment and/or selection methods for RNG.	(16-13)
Level 3	Analysis of the advantages and/or disadvantages of suggested changes to recruitment & selection methods, with specific reference to the circumstances found at RNG.	(12-9)
Level 2	Understanding shown of possible improvements to recruitment and/or selection methods that could be used.	(8-5)
Level 1	Knowledge of issues related to recruitment and/or selection.	(4-1)

4 Assess the possible reasons for the differences between the budgeted and actual performance of RNG shown in Table 4. [10]

Possible reasons include:

- *Turnover may be difficult to predict given the seasonal nature of the product. Even though the cafés have been open for a number of years it may not always be possible to use previous yearly sales figures as a guide, as the weather can be extremely variable. Also external factors such as exchange rates can have a significant impact on the number of holiday makers.*
- *Growth in any business can make forecasting difficult. In particular, new store openings will lead to increased uncertainty when forecasting turnover.*
- *The increased waste levels highlighted in the case study will mean that the link between forecasts for turnover and direct costs will be inconsistent. Increased waste means reduced efficiency and so higher costs.*
- *The introduction of the new chocolate drink coincides with the period of the budget statement in Table 4. Forecasting sales of a new product is particularly difficult. The level of turnover from this new product is significant (over £21,000 in each quarter).*
- *Problems of recruitment at the Brighton-Seafront site may be a symptom of a problem across all the sites (this is implied by Ruth and evidenced by the increasing labour turnover). This is an increasing problem and may also be a factor therefore in higher direct costs and/or lower turnover.*
- *An unexpected increase in site rental costs may be the reason for the higher than budgeted overheads in 2006.*

Candidates need to show which of these or other factors are likely to be the most plausible/significant reason for the observed differences.

NB: No reference to variance is required at any level of response.

ARA

Level 4	Evaluation shown of the most likely explanation(s) for RNG's failure to achieve budgeted profit levels.	(10-9)
Level 3	Analysis of <u>reasons specifically linked to RNG</u> why they have not achieved the budgeted profit levels.	(8-6)
Level 2	Understanding shown of general reasons why RNG might have failed to reach their budgeted profit forecasts.	(5-4)
Level 1	Knowledge of issues related to budgets and/or budgeting. May also include correct statements of fact from Table 4 but with no attempt to explain.	(3-1)

Mark Scheme 2874
June 2006

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1 (a) Analyse the likely components of the marketing plan for Ball Games. [6]

A marketing plan tends to detail the firm's marketing objectives and strategy. The plan may well involve an audit of marketing issues to include a SWOT analysis followed by the setting of clear objectives and the strategy for achieving those objectives. In the case, some consideration of the rather confused position faced by Ball Games and the lack of a clear focus.

Level 3	Analysis of marketing plan in the context.	(6-5)
Level 2	Application and/or understanding of marketing plan.	(4-3)
Level 1	Knowledge of marketing plan/definition of planning.	(2-1)

(b) (i) Calculate the change in predicted sales value between the third and fourth quarters of 2007. [4]

Calculation:
Quarter three- £295000 + £59000 = £354000 (1)
Quarter four- £300000 - £75000 = £225000 (1)
Difference is a fall (1) of £129000 (1)

(ii) Discuss how an understanding of time series analysis might assist Ben in his sales forecasting for Ball Games. [10]

The calculation highlights the great variation that 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 Ball Games. The changing nature of the market and the development of the firm may render the process of little use. TSA may make Ben think about the problems of seasonal sales and allow production planning, when to target promotion activities in relation to the aims of the form-these aims are a little unclear.

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

2 (a) **Evaluate the factors that Ben would need to consider before Ball Games expands into Europe. [16]**

The factors may well include: the possible demand for the products; competition; the extent of currency problems; promotion difficulties (language etc.); transport and wider distribution issues, etc. Ben may well have to consider the use of the agent very carefully.

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

(b) **Analyse how Ben could use the product life cycle to help the overall product strategy of Ball Games. [6]**

The product cycle simply charts the progress/pattern of sales for a product over time. There are clearly identifiable stages that a product goes through and the strategy for each product and for all products in the portfolio can be managed more effectively by adjusting the mix. In the case there is evidence of different time scales for products.

Level 3	Analysis of product life cycle, using example(s).	(6-5)
Level 2	Application/understanding of product life cycle.	(4-3)
Level 1	Knowledge of product life cycle.	(2-1)

(c) **Develop and justify a marketing strategy that Ben could employ for Ball Games. [16]**

A marketing strategy is an appropriate combination of the elements of the marketing mix that face a firm at a given point in time. The strategy should meet the marketing objectives without going beyond the budget set. There are a number of 'mix' issues raised in the text and others could be developed in the response. The case considers aspects of price (Table 1); product, in terms of the range of the products provided and the rental vs. sale issues; distribution, in terms of 'remote' location; promotion-lots of ideas that could be developed.

Better candidates will draw together the ideas in a strategic way.

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

Mark Scheme 2875
June 2006

Subject - specific instructions

1 The paper is to be marked to A2 standard.

2 Marking should be positive: marks should not be subtracted for errors or inaccuracies.

3 In assessing quantitative answers the "own figure rule" (OFR) must be applied, i.e. a candidate must be given credit for calculations which, though wrong, are consistent with an earlier error.

4 Candidates should be regarded as achieving the highest level of response which accurately describes their answer. They do not necessarily pass through all lower levels of response.

5 Material in italics refers to possible issues/content that candidates might use. These suggestions are neither exhaustive nor necessarily required.

6 Up to 2 marks will be awarded for quality of written communication, which in this context refers to:

(a) the clarity of the candidate's expression
(b) the structure and presentation of ideas
(c) the grammar, punctuation and spelling.

2 where the demonstration of communication is as good as could be expected under time constrained examination conditions,

1 where the candidate's demonstration of communication is good in terms of clarity of expression
OR structure and presentation of ideas,
OR the grammar, punctuation and spelling,
and sound in the other regards,

0 where the clarity of the candidate's expression,
OR structure and presentation of ideas,
OR the grammar, punctuation and spelling, are such as to detract from the quality of the answer.

1 (a) Calculate for 2005

(i) The capital employed [2]

Profit/capital % = 6 %. [1] Profit = £28M Therefore capital employed = £466.6m

(ii) The value of stock [2]

Stock/ sales times 365 = 55. [1] Sales = £400m Therefore stock = £60.2m

Full marks for the correct answer. Workings not necessary.
1 mark for either formula or correct figures but arithmetic error.
Applies to both parts.

(b) Analyse the liquidity implications for BBP of the data in Table 2. [6]

All three indicators move in a direction that adversely impact on cash flow and hence on liquidity. The rise in the stock turnover days implies that stock is shifting more slowly. The rise in the debtor period implies cash from debtors taking longer to collect. The fall in creditor days implies quicker settlement of outstanding invoices.
L1 Describes or states what has happened
L2 Says things like liquidity getting worse or something similar bu unable to show why
L3 Turns information into evidence . Interprets the data. Shows why the liquidity has worsened.

L3	Analyses the consequences of the changes in the indicators on the liquidity of B & B.	[6-5]
L2	Understands the consequences of the changes in the liquidity indicators	[4-3]
L1	Identifies the movement in the indicators thus showing knowledge.	[2-1]

(c) Discuss possible causes of changes in both Gross profit margin and net profit margin of BBP over the last three years. [10]

G.P. has continually fallen. This reflects fact that profit per unit sale reduced because of tough selling conditions. N.P fell and then improved. This reflects fact that overheads have been reduced and thus expenses cut. The net profit has now grown despite the fall in the margin per direct sale. This implies that measures taken by the business to cut overheads are working.
L1 Describes movement in the figures
L2 States possible reasons for the changes
L3 Explains what has happened with reference to the data. Interprets the data and shows why [at least probably why]
L4 Conclusions based on analysis

L4	Evaluates causes of the changes in the profit margins of B & B	[10-9]
L3	Analyses impact of the causes of the changes in profit margins on the business	[8-6]
L2	Understands/ applies causes of the change	[5-3]
L1	Shows knowledge of the change.	[2-1]

(d) Using all relevant information evaluate the impact of Alistair's strategy of downsizing on the performance of BBP in 2005. [16]

Impact of the downsizing strategy is as follows – sales fallen and so has market share. Thus conflicts with growth objectives. However return on capital has improved and hence some financial success. Net profit margins also improved. Fall in G.P. margin suggests that this has been the consequence of price discounting policies. Thus difficult to see how this could continue as a long term strategy. Some performance indicators represent a worsening outcome. Stock turnover down and hence clearly not an unqualified success as this indicates problems in shifting stock.. By inference the clothes being stocked are not proving particularly popular with customers. Nevertheless profitability indicators are positive and the asset turnover shows an improvement. Much depends upon the objectives of the business.
L1 Describes downsizing
L2 Some understanding of the policy albeit entirely descriptively
L3 Breaks down and interprets data
L4 Information assessed and conclusions reached and justified. .Draws inferences regarding the validity of the strategy Assessment usually requires some yardstick against which judgement can be based. Typically this might include reference to factors like

- *Sales*
- *Market share*
- *Profitability*
- *Efficiency*
- *Liquidity [possibly] or at least cash flow implications*
- *Attainment of objectives*

L4	Candidate demonstrates some evaluative skills when considering the downsizing strategy of B & B	[16-10]
L3	Candidate demonstrates analytical skills when considering the appropriateness of the downsizing strategy for B & B	[9-7]
L2	Application / understanding of strategy being used by B& B	[6-4]
L1	Knowledge of strategy	[3-1]

2 (a) Analyse the impact of the "stock write down" on the financial accounts of BBP. [6]

Stock write down will show up as a provision on P/L account and will have the impact of reducing profit by the same amount. On the balance sheet it will reduce the value of stock and shareholders funds. Stock is usually valued at historic cost but if it becomes of lower value this must be reflected ultimately in the accounts.[net realiable worth]
L1 Knowledge of stock valuation
L2 Shows it has some impact but unable to show why e.g. profits will fall or value of assets will decrease
L3 Interprets the concept and shows how and why it impacts on the accounts

L3	Analyses impact of the provision on the accounts of B &B.	[6-5]
L2	Understands impact of the provision	[4-3]
L1	Demonstrates some knowledge of impact.	[2-1]

(b) Assess the usefulness of BBP's published final accounts to the stakeholders of the business. [16]

Financial accounts usually refer to Balance sheet and P/L account. They allow some judgement to be made regarding the financial performance and position of the business. Stakeholders are groups of people who have an interest in the performance of the business. They include employees / creditors / suppliers / shareholders / customers. The accounts aim to show a true and fair view of the position of the business. That is why they are potentially useful. However if accounts are not produced in a consistent manner and changes occur in their preparation then their value is reduced. Furthermore the accounts can only include matters than lend themselves to financial valuation. Thus reputation/ market share / employment levels etc are not included but which might be of great interest to some stakeholders. The accounts represent the starting point for the analysis of the position and performance of the business. They provide quantitative financial evidence but no more. They are also historic in nature and clearly do not show anything regarding future performance or potential. Thus employees might find them of limited value when assessing the security of their employment. Similarly customers might find them of interest but of little direct value. Everything thus depends upon what individual stakeholder groups want to learn about the business.
L1 Shows knowledge of accounts and stakeholders
L2 Discusses usefulness but fails to show why in any meaningful way
L3 Indicates how and why useful to different groups
L4 Shows judgement in assessing the degree of value. [must have shown in analysis why they are of value in the first place] Discusses the usefulness and limitations of the information

L4	Candidates demonstrates some evaluative skills when considering the usefulness of accounts of the business.	[16-10]
L3	Candidate demonstrates analytical skills when considering the usefulness of the accounts of the business.	[9-7]
L2	Candidates demonstrates some understanding of the usefulness of the accounts.	[6-4]
L1	Candidate demonstrates knowledge of the accounts.	[3-1]

Mark Scheme 2876
June 2006

General

1 The paper is to be marked to A2 standard.

2 Marking should be positive: marks should not be subtracted for errors or inaccuracies.

3 In assessing quantitative answers the 'own figure rule' (OFR) must be applied, i.e. a candidate must be given credit for calculations which, though wrong, are consistent with an earlier error.

4 Candidates should be regarded as achieving the highest level of response which accurately describes their answer. They do not necessarily pass through all lower levels of response.

5 Material in italics refers to possible issues/content that candidates might use. These suggestions are neither exhaustive nor necessarily required.

6 Up to 2 marks will be awarded for quality of written communication, which in this context refers to:

(a) the clarity of the candidate's expression;
(b) the structure and presentation of ideas;
(c) the grammar, punctuation and spelling.

2 where the demonstration of communication is as good as could be expected under time constrained examination conditions,

1 where the candidate's demonstration of communication is good in terms of clarity of expression
OR structure and presentation of ideas,
OR the grammar, punctuation and spelling,
and sound in the other regards,

0 where the clarity of the candidate's expression,
OR structure and presentation of ideas,
OR the grammar, punctuation and spelling, are such as to detract from the quality of the answer.

1 (a) (i) Using Table 1, and showing your workings ,calculate the percentage of volunteer hours <u>not</u> covered in week ending May 14th.
. [2]

$$\frac{130}{436} \times \frac{100}{1} \quad (1) \quad = \quad 29.81\% \ (1)$$

N.B. Award 2 marks for correct answer without workings.

1 (a) (ii) Using Table 1, and showing your workings calculate the percentage of hours actually worked in the maintenance section for the week ending 21 May. [2]

$$\frac{11}{48} \times \frac{100}{1} \quad (1) \quad = \quad 22.9\% \ (1)$$

N.B. Award 2 marks for correct answer without workings.

1 (b) Discuss the possible reasons for the differing absence rates amongst volunteers. [10]

The highest absences occur in maintenance, this may be because the tasks are less interesting, and of a more mundane nature. There are significantly less absences for engine driving, conducting, and for guards. These activities might be seen as being higher profile, carrying more "status", and much more enjoyable as tasks.

It may be due to the fact that the people assigned to these tasks are just too busy in their actual jobs, or they may have gone on holiday without notifying Piers. It is also possible that people may not have been available but failed to send Piers a tear-off slip stating they were not available when he sent out his monthly rotas.

The differing rates may also be due to differing degrees of group identity and team spirit, or even differing levels of motivation amongst individuals / groups carrying out the different tasks.

The people working on track clearance / weeding etc., may decide not to bother turning up if the weather is bad on the day they are supposed to, as they do not want to get wet and cold carrying out these more mundane tasks.

Level	Descriptor	Marks
4	Candidate demonstrates evaluative skills when considering reasons for differing absence rates amongst volunteers at SDRS.	10 – 9
3	Candidate demonstrates analytical skills when considering reasons for absences.	8-6
2	Candidate explains reasons why people at SDRS might be absent.	5-3
1	Candidate offers theoretical reasons for absences only.	2-1

1 (c) Analyse possible consequences to SDRS of the way in which that Piers chooses to communicate with volunteers. [6]

The case study indicates that Piers usually only gets back 50% of the tear-off slips, this means that he only has a 50% degree of commitment that the allocated individuals may turn up for their allocated task.

This will make it very difficult to know whether or not he has to make any provision for short-term cover for those that do not actually attend. This situation is compounded by the fact that he finds it difficult to ring round to get any short-term cover as many of the people he phones are out, and he is reluctant to ring people at work.

If people do not turn up, as in the case study, he might have to cancel some of the trains, leaving SDRS with disgruntled customers, and running the risk of getting a poor reputation due to the unreliability of the train service.

Level	Descriptor	Marks
3	Candidate demonstrates analytical skills when considering the possible consequences of Piers' way of communicating	6-5
2	Candidate explains relevant consequences to a business such as SDRS	4-3
1	Candidate demonstrates relevant theoretical knowledge only	2-1

1 (d) Piers decides to advertise for three maintenance staff on 20 hour flexible contracts, paid at £10 per hour.

Evaluate the potential Human Resource implications of this decision to SDRS. [16]

Firstly, Piers will probably need to devise a job description and person specification, which will enable him to focus on the skills, experience and qualifications required. These documents should also enable him to prepare information packs to send to interested people, and help him to design an advertisement, which he may decide to place in local newspapers. He tried to advertise in local papers before, but that was for volunteers. An advertisement in the local papers may work, because he now has a paid post to advertise, and may get more response this time.

He will need to plan his interview strategy and questions, and devise a means of choosing the five that he requires, assuming that he gets more than three applicants. He does not appear to have considered the consequences of offering a flexible contract of 20 hours. Whilst this may prove beneficial to SDRS, it may put off people with the appropriate skills who are seeking full-time work.

He also has to consider the implications of offering the jobs as “paid posts”, and the impact that this might have on volunteers, who obviously give their time freely. He is advertising for three maintenance staff, so there may still be volunteers carrying out the same tasks as the newly recruited paid employees - the impact of this might be?

The creation of these paid posts will further complicate the rota procedure, and further administration tasks will be created - National Insurance, Income tax deductions, production of pay-slips, payment to bank accounts etc. There is no guarantee that Piers will be able to recruit any / enough maintenance people. He may spend a lot of time, effort and money to no avail.

Level	Descriptor	Marks
4	Candidate demonstrates evaluative skills when considering the Human Resource implications of the decision to appoint paid maintenance staff on flexible contracts.	16-10
3	Candidate demonstrates analytical skills when considering the Human Resource implications of the decision to appoint paid maintenance staff on flexible contracts.	9-6
2	Candidate explains relevant issues when considering the Human Resource implications of appointing paid staff alongside volunteer workers at a business such as SDRS.	5-3
1	Candidate offers relevant theoretical knowledge only.	2-1

2 (a) Analyse the implications to SDRS of holding personal data about its voluntary staff. [6]

SDRS will need to keep these personal details, whether they are held on computer and / or paper systems, safe and secure.

Piers will have to make sure that all aspects of the Data Protection Act are adhered to, otherwise SDRS could be prosecuted/fined.

Time and effort will need to be allocated to keeping the records accurate and up-to-date. This may have an opportunity cost with regard to other tasks Piers needs to carry out.

He must make sure that only relevant information is recorded and kept about the volunteers.

If the data is not kept up-to-date Piers may not be aware if any of the volunteers move, change their telephone number/e-mail address. This could be a reason why he cannot contact some of the volunteers.

Level	Descriptor	Marks
3	Candidate demonstrates analytical skills when considering the implications to SDRS of holding personal data about their volunteers.	6-5
2	Candidate explains reasons why SDRS should exercise care over the personal details held about volunteer staff.	4-3
1	Candidate offers relevant theoretical knowledge only.	2-1

2 (b) Discuss the possible consequences to SDRS if Piers stops all future training. [16]

Working on a railway is likely to be potentially quite dangerous, particularly for people who normally do quite different types of work, and are only volunteers. New volunteers are likely to be particularly vulnerable, and would almost certainly benefit from induction and health and safety training, in order to know more about their role, how SDRS operates, and health & safety procedures. Although SDRS is a charitable concern there is still the issue of "duty of care" in relation to volunteers, customers etc. SDRS is still subject to H&SAW legislation, must use safe systems and practises, and should provide volunteers with appropriate training and awareness raising measures.

Cancelling future training will save money, time and effort for Piers, but any savings are " small fry " compared to the cost of any legal action against SDRS and any compensation they have to pay volunteers/customers for any accidents occurring which could have been avoided.

It would also prove very difficult for new volunteers to learn the skills/tasks they would be responsible for without any training. Driving a train might be easy if you know how to do it, but how for example might a teacher volunteer learn how to drive a train without any training. Stopping any training might also have a negative impact on the satisfaction and motivation of volunteers, particularly new ones, if they struggle to get to grips with their allocated roles, and cannot look forward to receiving any training to help them be better at what they do.

Piers also seems to think that because he is a long term railway enthusiast, and therefore quite knowledgeable, that everyone else who volunteers are likely to be as knowledgeable. A dangerous assumption to make from several different standpoints.

Level	Descriptor	Marks
4	Candidate demonstrates evaluative skills when considering the consequences to SDRS of Piers cancelling all future training.	16-10
3	Candidate demonstrates analytical skills when considering the consequences to SDRS of Piers cancelling all future training.	9-6
2	Candidate explains possible consequences of cancelling future training at a business such as SDRS.	5-3
1	Candidate offers relevant theoretical knowledge only	2-1

Mark Scheme 2877
June 2006

General Marking Instructions

1 The paper is to be marked to A2 standard.

2 Marking should be positive: marks should not be subtracted for errors or inaccuracies.

3 In assessing quantitative answers the "own figure rule" (OFR) must be applied, i.e. a candidate must be given credit for calculations which, though wrong, are consistent with an earlier error.

4 Candidates should be regarded as achieving the highest level of response which accurately describes their answer. They do not necessarily pass through all lower levels of response.

5 Material in italics refers to possible issues/content that candidates might use. These suggestions are neither exhaustive nor necessarily required.

6 Up to 2 marks will be awarded for quality of written communication, which in this context refers to:

(a) the clarity of the candidate's expression;
(b) the structure and presentation of ideas;
(c) the grammar, punctuation and spelling.

2 where the demonstration of communication is as good as could be expected under time constrained examination conditions,

1 where the candidate's demonstration of communication is good in terms of clarity of expression
OR structure and presentation of ideas,
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and sound in the other regards,

0 where the clarity of the candidate's expression,
OR structure and presentation of ideas,
OR the grammar, punctuation and spelling are such as to detract from the quality of the answer.

1 (a) Study the table below, which shows production data at the Leeds factory.

	Number of employees (average per year)	**Output of hats**
May 2004 - April 2005	**24**	**66 000**
May 2005 - April 2006	**21**	**52 500**

Calculate the percentage fall in labour productivity at the Leeds factory. **[4]**

Output per employee for 2003-2004 is 66000/24 = 2750	1 mark
Output per employee for 2004-2005 is 52500/21 = 2500	1 mark
%age change = 250/2750*100	1 mark
Ans. 9.09%	4 marks

(b) Discuss how WHC might use work study to raise productivity levels at its UK factories. **[10]**

Work Study *– A process that 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 discuss any of the following issues.

- *Looking at the processes that are used to make the hats, can any be removed, amalgamated etc?*
- *Can the factory layout be changed?*
- *Can workers work in teams to reduce their movement or the movement of the products? They already use a system of cell production (line 22) so this is unlikely to yield much in the way of improvement*
- *Can newer, more efficient machines or tools be used?*
- *Might different incentive schemes (e.g. performance related pay) be used to motivate employees*
- *Candidates might discuss ergonomics.*

Level 4	For evaluating how might WHC might use work-study to raise productivity levels at its factories.	10 - 9 marks
Level 3	For analysing how WHC might use work-study to raise productivity levels at its factories.	8 - 6 marks
Level 2	For clearly demonstrating an understanding how WHC might use work-study to raise productivity levels at its factories. If the answer is not in context but shows a clear understanding of the issues involved with the use of work study in a business, then award marks at the lower end of this level.	5 – 3 marks
Level 1	For demonstrating a general knowledge of the concept of work study but not in the context of the business.	2 – 1 marks

(c) Evaluate whether cell production is beneficial to WHC. [16]

This involves using small self-contained production units manufacturing part of or the whole article e.g. a type of hat. They may produce the completed article. This increases worker commitment, as workers can organise their own work, be involved in design, organise the tasks amongst themselves etc.

Cell production might be beneficial because

- *it uses less floor space than other production methods*
- *it is ideal where flexible production is needed*
- *movement of resources (materials and workers) is kept to a minimum*
- *teamworking is encouraged, with possible motivational benefits*

However the product has to be suited to this method of production.
Can cell production operate if workers with appropriate skills cannot be recruited?
Duplicate sets of resources e.g. equipment may be needed.
Candidates may discuss other appropriate methods of production for WHC such as batch production as a comparison.

Level 4	For evaluating whether or not cell production is beneficial to WHC.	16 -10 marks
Level 3	For analysing whether or not cell production is beneficial to WHC.	9 – 6 marks
Level 2	For demonstrating application of knowledge concerning whether cell production is beneficial or not to WHC. If the answer is not in the appropriate context but shows a clear understanding of issues involved then award marks at the lower end of this level.	5 – 3 marks
Level 1	For showing a general knowledge of the concept of cell production but not in the context of the business.	2 – 1 marks

2 (a) Analyse how value analysis might benefit customers of WHC. [6]

VA is a process that evaluates a product to remove any unnecessary complexities in design and production, whilst ensuring the product is still functionally sound.
It focuses on a balance between aesthetics, function and economic manufacture.
It is conducted by companies to see whether products are designed in a way that satisfies the consumer.
It is often associated with cost cutting and therefore seen as a "negative" technique, which might reduce quality and workmanship.

From the customer's point of view VA should ensure the product:
- *is designed to meet their requirements;*
- *can perform the functions the customer wants of a hat;*
- *is aesthetically pleasing;*
- *is economically manufactured and therefore competitively priced.*

Level 3	For analysing ways that value analysis might benefit the customers of WHC.	6 – 5 marks
Level 2	For clearly demonstrating an understanding ways that value analysis might benefit the customers of WHC. If the answer is not in context but shows a clear understanding of the benefits that may arise using the process of value analysis then award marks at the lower end of this level.	4 – 3 marks
Level 1	For demonstrating a general knowledge of the concept of value analysis, but not in the context of this business.	2 – 1 marks

(b) Analyse the operational implications to WHC of having seasonal demand for ladies' and men's hats. [6]

Issues for consideration:

- High storage costs e.g. security, maybe special conditions are needed. Hats are quite bulky items. As well as finished products, materials may also have to be stored.
- Planning production schedules carefully because it is vital to have resources and spare capacity when they are needed.
- Difficulty taking on additional orders during peak times.
- May need to sub-contract orders during peak times with implications this has e.g. delivery/lead times, quality.
- Having to work overtime in times of peak demand/working with spare capacity after the seasonal orders have been completed.
- Flexibility of the workforce in terms of hours worked
- Other valid responses

Level 3	For analysing the operations implications to WHC of having seasonal demand for ladies and men's hats.	6 – 5 marks
Level 2	For clearly demonstrating an understanding the operations implications to WHC of having seasonal demand for ladies and men's hats. If the answer is not in context but shows a clear understanding of the issues involved with the implications of seasonal demand for a business, then award marks at the lower end of this level.	4 – 3 marks
Level 1	For demonstrating a general knowledge of the implications to a business of having a seasonal demand for its products, but not in the context of the business.	2 – 1 marks

(c) Evaluate the implications of WHC moving all hat manufacturing operations abroad (line 42). [16]

Candidates might explore a number of operational issues. A key question might be should WHC expand their outsourcing and become purely a design and distribution company or set up new plant to produce under their own name abroad.
Candidates might discuss factors such as such as:

- *The implications for recruitment mean finding workers should be a lot easier for WHC, production seems to be quite labour intensive.*
- *Can quality be maintained?*
- *Are there suppliers available?*
- *Costs should be lower therefore WHC should be able to maintain its competitiveness.*
- *Can delivery dates still be met?*
- *The cost of moving the plant.*
- *The de-motivating impact of the possible closures e.g. staff reductions or redundancy payments.*
- *Operating in an area with another currency – costing implications.*
- *Other relevant points may be made that deserve consideration.*

Level 4	For evaluating the operational implications, whether beneficial or detrimental, of WHC moving all hat manufacturing operations abroad either to a new factory or by outsourcing.	16 – 10 marks
Level 3	For discussing/analysing the implications of WHC moving all hat manufacturing operations abroad either to a new factory or by outsourcing.	9 – 6 marks
Level 2	For clearly demonstrating an understanding of the possible implications to WHC of moving all hat manufacturing operations abroad. If the answer is not in context but shows a clear understanding of the issues that may arise then award marks at the lower end of this level.	5 - 3 marks
Level 1	For demonstrating knowledge of the possible implications for WHC of moving all hat manufacturing operations abroad.	2 - 1 marks

Mark Scheme 2879
June 2006

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.*

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 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.*

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.	(8-1 0)
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 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.*

Level 4	There is evidence of good explanation and use of knowledge consistent 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 ability to make logical and reasoned judgements and to select and justify best solutions. Evaluation may be shown at all stages of the work e.g. 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.*

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.

Mark Scheme 2880
June 2006

General

- The paper is to be marked to A2 standard.

- Marking should be positive; marks should not be subtracted for errors or inaccuracies.

- Candidates should be regarded as achieving the highest level of response which accurately describes their answer. They do not necessarily have to pass through all lower levels of response.

- In assessing quantitative answers the "own figure rule" (OFR) must be applied, i.e. a candidate must be given credit for calculations which, though wrong, are consistent with an earlier error.

- Materials in italics below refer to possible issues/content that candidates might use. These suggestions are neither exhaustive nor necessarily required.

- The emphasis throughout this paper should be upon the integration of the material learnt and the context described within the stimulus material. Candidates are expected to treat both in a synoptic manner, considering situations from a variety of perspectives rather than a series of discrete issues by adopting a holistic/multi-disciplinary approach.

- Up to 4 marks will be awarded for Quality of Written Communication, QWC, which in this context refers to;
    - The clarity of the candidate's expression,
    - The structure and presentation of ideas,
    - The grammar, punctuation and spelling.

  Marks will be awarded as follows

4 where the demonstration of communication is as good as could be expected under time constrained examination conditions,

3 where the candidate's demonstration of communication is good in terms of clarity of expression,
Or structure and presentation of ideas,
Or grammar, punctuation and spelling,
And sound in other regards,

2 where the candidate's demonstration of communication is sound,

1 where the clarity of the candidate's expression,
Or structure and presentation of ideas,
Or grammar, punctuation and spelling,
Are such as to detract from the quality of the answer,

0 where the demonstration of communication generally detracts from the quality of the answer.

Question 1

Discuss how the strategic behaviour of FES would be affected by changes in the sterling exchange rate. **[18]**

Exchange rate; price of one currency when denominated in terms of another. Rising value of the £ makes imports cheaper, yet exports more expensive. Extent of the impact of exchange rate depends upon the extent of the change, whether the change is anticipated and for how long it continues.

Case describes increasing import penetration in UK markets. Rising pound would make this worse and so force FES to concentrate on non-price factors in its sales. Magazine test suggests the price is not the only purchase criteria so FES should focus on these non-price attributes. Similarly, after sales service etc could be a strategic differentiator.

Also, focus efforts more on retail sales rather than agent sales. Retail sales are more valuable, ex factory price is higher. Sales last year of £1.625m found by £260,000 order being a 16% increase in sales. Sales split: 70% Agent, 30% retail; produced 5,000 units so average price is £325. Strategic reaction to might be to build web based and other direct sales opportunities, but, as 70% of sales are through Agents need to avoid alienating them, who might see increased efforts by FES into direct sales as being in direct competition to what the Agents do. If FES upset its agents they will lose large volume, lower price, sales. Can it do this at a time when it does not know who are its direct customers? Possibly a high £ might stimulate the need to do some market research.

Total export market has declined as a % (45% to 40%), but big jump in direct export sales (0 to 10%). Fastest growth across the four markets, so whilst small it is important. High value of the £ would jeopardise further growth in this market. Current sales worth £160,000. Impact depends upon which currency export customers pay in. If FES quote in £s the exchange rate risk rests with customer, so sales volumes are likely to fall (depending upon the market's PED).

Manufacturing, imported component valued at £9. Rising pound would make this cheaper, but it would need a big change in sterling to have much impact. Note, material and labour costs are £180, so imported part represents just 5%, but, even a 10% change in sterling only causes manufacturing costs to rise just £0.9, or 0.5%. But a large and sustained rise in sterling would make outsource via imports more attractive.

L4	Discussion is evaluative in balancing different possibilities.	18-13
L3	Case material is subject to analysis in considering possible strategic reaction.	12-8
L2	Applies understanding of exchange rates to FES.	7-4
L1	Demonstrates knowledge of exchange rates.	3-1

Question 2

Should FES accept the order from TTM? Justify your view. **[19]**

Order increases sales by 16%, so substantial. Has FES got the capacity to manufacture 65 units? Further, we don't know delivery dates etc, so the sooner the signs are needed then the more pressure there will be to switch resources to this order. Can FES afford to make other customers wait? We can assume, because FES has already built one it has the ability to make others.

Unit price of the TTM order is £4,000. Press article suggests TTM sell signs for £7,500 so might there be a possibility of entering the market by selling directly to local authorities. But does FES want to be dependent on one customer for such a large slice of their income? Consider dominant power in the relationship. If FES do sell to TTM might TTM start to demand lower unit prices for continuing sales?

Note TTM may not be the only route into this market. TTM are not to only providers to local authority, so maybe say "no" and approach other contractors or councils directly. Figures suggest that FES need to sell just 10 signs to recover investment in development, but development cost is sunk and so might not be a factor in the decision.

The situation is a new market, adaptation of product so candidates might seek to use Ansoff here to assess risk and return. Price is £4,000 with variable costs of £2,000 so each sign yields £2,000 contribution, giving a total of £120,000 contribution. Deduct development costs and then have £100,000 so unless it increases other fixed costs then it looks like a good 'un financially (less the £10,000 bribe of course, but how many future orders might this be spread over?). Note Steve believes the road sign market could be worth as much as £0.5m pa at ex-factory prices, and will rise by 4% pa for the next five years. Is he a reliable source? Also note that the road sign market is one that FES has been targeting for some time so the order is consistent with the implied objective. Refer to table 1, road sign is a growing market.

Ethical issue as well; is it right to pay a bribe to win a contact? Who loses? Certainly the local authority because they are getting a more expensive road sign. Arguably the shareholders of FES because they are having to pays a one off cost. Arguably, the competitors do as well because if FES pays the bribe then the competitor does not get the contract. So, the view this is a win-win is not quite accurate.

Good candidates will consider the objectives of FES, i.e. John. What is his position about questionable ethics? Is it too naive to take the view that business is cut throat so any means to secure orders is worth it – but John doesn't seem to be that type of guy. What might his employees think of him if word got out he had done a "shady deal"? Further, there is no suggestion that this order is vital to FES and if turned down might jeopardise the future of the firm.

L4	A balanced view is reasoned explicitly in context.	19-14
L3	Discussion of view is supported by analysis of case material.	13-9
L2	Offers a view supported through description of the case.	8-5
L1	Offers a view without support.	4-1

Question 3

Recommend whether FES should out source manufacture of components. **[19]**

Gain is thought (by Steve, the marketing manager!) to be £40 per unit. Last year sold 5,000 units so saving is £200,000, or 12.5% of turnover. Labour saving 3 hours @ £25/hour = £75. Saving per charger = £75 + (£80-£40) - £115. 5,000 chargers = £115 x 5,000 = £575,000 i.e. nearly 4½ times 2004/2005 profit. Quite considerable, but based on £:$ of 1:1.75. Clearly, movements of the exchange rate make this saving change. What currency would the supplier want to be paid in; who takes the exchange rate risk?

5000 units 86% of capacity, makes capacity about 5,800 units pa, or 1,450 per quarter. TSA suggests this will be hit in 2007, qtr 3, i.e. in just over one year. If FES is to continue to grow then there is a clear and reasonably urgent need for additional capacity. One way to achieve this is to outsource some of what they do already.

Switch to assembly only exposes FES to suppliers far more. Can suppliers be relied upon to deliver on time and to the required quality? Are supplier lead times consistent or would it require a build up of inventory to allow for interruptions in the supply chain.

Manufacture takes 3 hours, assembly 1. So, if outsource then immediately increase capacity by 4 times! Is there a big enough market for this jump in volumes, can FES working capital take the strain? This assumes that all of the 14 employees are retained and the switch to total concentration on assembly does not have an impact on efficiency.

Alternatively, maintain current output of the firm and reduce the size of the workforce. If outsource then only need ¼ of manufacturing and assembly employees. So, of the 14 could eliminate 10. Who to choose and the cost of doing this (redundancy payments set out in law and is a function of age, income and length of service). Any such redundancies would need to be within the law and handled appropriately.

What type of business does John want to run? What matters to him; manufacture or design? If the former then do not outsource and accept increasing labour centred problems and higher costs. If design, then it might severely harm the culture within the business as employees who survive the cull feel threatened and possibly betrayed that an "ex-hippy" could be so ruthless. Also, if the added value is in design then getting a supplier to manufacture all the component risks the loss of the main selling feature – it would be easier to copy the wind charger if the supplier manufactured all of the bits, rather than just one bit. Is this too big a risk?

L4	Discussion is balanced in evaluating recommendation.	19-14
L3	Analyses case material in support of recommendation.	13-9
L2	Recommendation is supported by descriptive use of the material.	8-5
L1	Offers a view without support.	4-1

Question 4

Evaluate how specific objectives might contribute to FES' success. **[20]**

Success means different things to different stakeholders. Also implies that there is an objective to measure against. Here we have a real problem. All of John's objectives are either secret or far too woolly to measure against!

John; presumably takes a salary and could also take dividends, NB, retained profits show a profit for 2004/5 of £118,482, which based on a turnover of £1.625m is 7.3% net profit margin. Similarly, ROE is 24.8% which is very good indeed (compared to opportunity cost of capital, base rates). So, whilst he may not be financially focused he is running a financially successful business! His capital gain in shares has been from £4,000 to an equity stake of £526,748, over 17 years. Quite an achievement but, success tempered by a feeling the family culture is in decline. Similarly, he is now getting more hassle from external parties, which again might reduce his feeling the business is a success. Recognises that targets might cause anxiety, but what price no anxiety (a non-measurable aspect of success).

Mick (the other shareholder) will enjoy the growth in equity value but could this be realised if he wanted to exit? As an Ltd he cannot just sell and take his capital. Note, disagreement re dividends suggests a feeling of disquiet.

Employees. Growth in numbers indicative of success; rarely will unsuccessful companies expand. Further, they may well be aware that FES is profitable, either form remarks John may make or by looking at the accounts (Ltd = public disclosure). Also, manufacturing and assembly staff are paid at least £12,000 pa for a 48 week, 36 hour week which equates to £6.94 per hour for work which Steve describes as unskilled. Employment package includes 4 weeks holiday, so altogether employees get a decent deal. Reference Appendix 1 suggests FES is very lax regarding absenteeism – might be part of John's laid back attitude/culture. Do employees want an objective, or are they happy to work without a clear goal? Again, a target might actually damage the culture of the company, reducing its current success.

Banks. FES has eliminated its borrowing (2005 has zero gearing), so no interest payments for it. Modest 2004 gearing of 10.4% low risk. Bank might question stock build up and why FES has such a large cash pile. To a financier this could be evidence of poor financial management, i.e. a lack of success. With a clear objective then these resources could be put to better use.

Community; FES provides jobs and products that are environmentally friendly, may contribute to safer roads might be seen as a sign of success. Govt. Contribute to employment, exports, taxation and environment so FES helps govt achieve its own objectives. But, are internal objectives an issue for these stakeholders?

L4	Achieves a position having evaluated different views, which might be inclusive.	20-15
L3	Analysis of case material synthesises the concepts of success and objectives.	14-9
L2	Concept of success is applied to objectives descriptively.	8-4
L1	Demonstrates knowledge of objective and/or success.	3-1

June 2006 Assessment Series

Unit Threshold Marks

Unit		Maximum Mark	a	b	c	d	e	u
2871	Raw	45	29	26	23	21	19	0
	UMS	90	72	63	54	45	36	0
2872	Raw	45	23	20	17	14	11	0
	UMS	90	72	63	54	45	36	0
2873	Raw	60	39	35	31	27	23	0
	UMS	120	96	84	72	60	48	0
2874	Raw	60	32	29	26	23	20	0
	UMS	90	72	63	54	45	36	0
2875	Raw	60	39	34	30	26	22	0
	UMS	90	72	63	54	45	36	0
2876	Raw	60	40	36	32	29	26	0
	UMS	90	72	63	54	45	36	0
2877	Raw	60	36	31	27	23	19	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	65	58	52	46	40	0
	UMS	90	72	63	54	45	36	0
2880	Raw	80	52	46	41	36	31	0
	UMS	120	96	84	72	60	48	0

Specification Aggregation Results

Overall threshold marks in UMS (i.e. 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	10.2	26.9	48.8	69.8	86.1	0	6880
7811	11.9	38.4	69.8	90.6	99.0	0	5818

For a description of how UMS marks are calculated see;
www.ocr.org.uk/OCR/WebSite/docroot/understand/ums.jsp

Statistics are correct at the time of publication

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