

# **Business Studies**

Advanced GCE A2 7811

Advanced Subsidiary GCE AS 3811

## **Mark Schemes for the Units**

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**June 2007**

**3811/7811/MS/R/07**

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#### MARK SCHEMES FOR THE UNITS

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**Mark Scheme 2871  
June 2007**

**General**

- 1 The paper is to be marked to AS 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, ie 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.
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    - (b) the structure & presentation of ideas,  
and
    - (c) their 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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are such as to detract from the quality of the answer.

1 Outline two ways in which DKE could benefit from a 'detailed business plan' (line 7).  
[4]

*NB As DKE is a partnership accept references to DKE or Don. Accept reference to benefits at the initial establishment of DKE and/or to its ongoing operations*

*A plan will:*

- *help ensure Don's business has the necessary resources, eg the right employees; so that the risk of unsatisfied customers is minimised. Adequate finance; so that the firm does not run into cash flow problems. The right sort of suppliers; to meet his requirements on quality;*
- *help raise finance. It will be essential to show to potential investors;*
- *provide a series of targets to aim for 'so that everyone knows what they are expected to do';*
- *provide a means of reviewing progress towards the business' objectives.*

*NB Also allow reference to 'the planning process'*

*By planning, Don will have considered his customer base, his marketing policies, etc (detailed knowledge not required) so that the risk of a lack of demand and/or targeting in the wrong way is minimized.*

*Planning will help Don with setting the right, ie (SMART), objectives in the first place, eg if the economy is booming this may involve setting different objectives to those if a recession is predicted.*

*Planning will also help Don with reaching objectives; it will enable the future to be forecast (to some extent anyway) and so Don can adopt a pro-active rather than a reactive approach.*

*Allow references to strategic (ie long term) planning AND/OR tactical (short term/day to day, etc) planning.*

<b>Level 2</b>	Benefit(s) of producing a business plan outlined.	<b>(4-3)</b>
<b>Level 1</b>	Benefit(s) of producing a business plan stated and/or knowledge of feature(s) of a business plan.	<b>(1-2)</b>

**2 Evaluate possible effects of Simon's attitude to business ethics on DKE's stakeholders. [14]**

*Essentially this answer revolves around "which stakeholders benefit?" and/or "Is this correct?"*

*Possible stakeholders in DKE: employees, customers, "local community", suppliers, government.*

*More profit is being made but are employees actually benefiting, eg in terms of improved wages, conditions, job security, etc? No complaints mentioned so this could be true.*

*Customers are not benefiting when Simon behaves in this way. They are buying products that they do not need to - and may not be able to afford. Simon is exploiting his position with regard to the average motorist's knowledge.*

*Will 'the local community' be affected? If profits rise Don may well feel (guiltily?) that DKE should 'put more' than it does already into the local community. If so the community may benefit.*

*Suppliers may well benefit in terms of sales which may mean that the suppliers' position is more secure, but to what extent is this offset by Simon forcing worse conditions of payment on them? Are they stakeholders in the true sense of the word any more?*

*Presumably the government will be 'happy', as it will get more tax revenue if DKE's profits rise.*

<b>Level 4</b>	Some evaluation, eg supported judgement concerning the impact on DKE's stakeholder(s).	<b>(14-11)</b>
<b>Level 3</b>	Some analysis of impact of Simon's attitude on DKE's stakeholder(s).	<b>(10-7)</b>
<b>Level 2</b>	Some application/understanding of the issue(s).	<b>(6-4)</b>
<b>Level 1</b>	Knowledge recalled about ethics and/or stakeholders.	<b>(3-1)</b>



- 3 Don has decided to give “serious consideration” to buying TCT (line 57). He estimates that Michael would accept an offer of £160,000. State two appropriate sources of finance that Don could use to purchase TCT. [2]

- loan
- mortgage
- re-mortgage
- borrow more from his brother/friends
- take on another partner/more partners
- sales and leaseback of one of the existing branches
- change DKE into a (private) company
- sell assets
- business angels
- (retained) profits
- venture capitalist
- Don’s own money
- government assistance
- “borrow from bank”

**Do not accept** - ‘overdraft’ which is supposed to be a safety net for cash flow problems not for large capital purchases./Issue shares - DKE is currently a partnership./Become a plc’ - this is most unlikely.

**Level 1** 2 x 1 mark **(2)**

- 4 Don's initial business objective was "to make twice the income he had earned as an employee by the end of his first year" (line 20-21).

Analyse why Don's business objectives are likely to change over time. [9]

*NB As Don is a partner 'his' business objectives are the same as those of the firm.*

*Allow references to any 'period of time', ie short/medium/long term. ARA on how long 'short term', 'medium term' and 'long term' actually are.*

*The candidate could answer from either or both of the following perspectives.*

*Changes in the external environment.*

*The business environment is dynamic and Don will need to review and revise his objectives in the light of any change in influences, eg*

- *changes in the state of the economy with concomitant changes in spending levels, interest rates, fiscal policy, etc*
- *disappearance of a competitor such as Michael/TCT*
- *any opportunity that is 'almost too good to miss' (line 50)*
- *emergence of a competitor*
- *changes in suppliers' costs*
- *changes in customer preferences, etc.*

*Changes in the firm's 'position' (and Don's)*

*Once an (initial) objective is reached another will then be set. This is exactly what happened. Don felt so pleased and confident that he opened another branch. "Business was so good his objective would now be expansion. He opened another branch about ten miles away". (line 5)*

*In the longer run especially if he is going to be saving/'building up' the business in order to retire ("Don felt that if all went well he could look forward to a very comfortable early retirement" line 2). Don's objective may well change to achieving a certain amount of profit or achieving a certain percentage growth in profit per year (or over some other period of time).*

*Although certainly not an initial objective, Don does seem to be starting to 'build an empire'. On the whole he certainly seems to be relishing the challenges so far. The larger firm brings greater personal reward and local prestige. This could be part of the reason for a change of objectives.*

*On the other hand as time goes on he may feel overworked and stressed (especially if he has trouble with those managing his branches) and so decide to downsize (the term does not have to be used) or set his business easier objectives that do not require so much effort from him if they are to be achieved.*

*Both of these are, of course, inter-linked and a candidate recognising this should be appropriately rewarded.*

<b>Level 3</b>	Some analysis ie reason for change in objective(s) and how objective(s) will change.	<b>(9-8)</b>
<b>Level 2</b>	Some application/understanding of the issues.	<b>(7-4)</b>
<b>Level 1</b>	Knowledge demonstrated of business objectives.	<b>(3-1)</b>

- 5 “The state of the economy looked favourable to Don” (line 55).  
To what extent will DKE be affected by the state of the economy? [14]

*An obvious ‘route in’ is via the business cycle but there is no requirement for candidates to use this framework. A detailed knowledge of economic theory is not necessary.*

*Candidates could consider the effect on DKE’s operations or/and customer behaviour - in practice the two are of course interlinked, eg if consumer spending does fall (causing a fall in revenue) DKE may ‘put off’ purchases of new equipment and ‘make do’ - why install ‘the latest technology’ if it will not be utilized? Candidates recognising this should be rewarded accordingly.*

*The effect on DKE’s operations*

*“Safe” tyres and properly functioning exhausts are a legal requirement. Does this mean that the demand for these is ‘steady state’ and not affected by the state of the economy? if so then the effect of DKE’s operations (and the decision to grow) may not be large:*

- *If demand is steady Don will be slow to “fire and hire” employees*
- *The same will be true about stocks - detailed knowledge not required*
- *Cash flow will not deteriorate significantly in a recession - detailed knowledge not required.*

*Nevertheless Don certainly gave the state of the economy some thought so it must have some significance to him.*

*The effect on DKE’s customers*

*In a recession/depression/when economic activity is low.*

- *Even if DKE’s core products are a necessity there are implications. Customers may delay purchases ‘until the last minute’ - if many customers do this (in a given time period) this will mean fewer sales*
- *With lower incomes consumers may switch to cheaper (substitute) tyres and exhausts and so even though sales are maintained, revenue/profit would fall*
- *The purchase of complementary products (the term does not have to be used), eg wheel balancing, wheel alignment, new tyre valves, etc may well fall - thus lowering revenue/profit*
- *Customers may become more cost conscious and not so willing to accept what they are told by someone like Simon. They may ‘seek out the best deal’. DKE will have to be more competitive to keep customers.*

*In a boom/when economic activity is high the opposite will apply.*

*The effects of economic policy on the consumer could also be considered. If interest rates are raised to slow down the economy, to what extent will this affect both the demand for DKE’s products and its operations? Vice versa. If taxes are increased, to what extent will this affect demand for DKE’s products and its operations? Vice versa.*

*Candidates could legitimately make a judgement of the effect(s) on DKE in the light of how severe a recession is or the extent to which the economy is growing.*

*NB Allow references to local/regional economy.*

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



**Mark Scheme 2872**  
**June 2007**

**General**

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**1 Outline two methods of below the line promotion used by Greggs plc. [4]**

*Eg Point of sale material - use of bags etc with the logos on, displays in store etc  
In-shop promotions -BOGOF etc  
Sponsorship of Greggs breakfast clubs in primary schools*

<b>Level 2</b>	Below the line promotion(s) explained/applied to the business.	<b>(4-3)</b>
<b>Level 1</b>	One or two below the line promotions stated.	<b>(2-1)</b>

**2 Discuss the possible advantages and disadvantages of Greggs plc's organisational structure. [12]**

*Consideration of the advantages and disadvantages of issues relating to the organisational structure:*

- *Some of the reflection of the pros and cons of the division of the business by the two brands*
- *There is a mixture of a centralised and non centralised approach. The centralisation of some aspects of the business, eg the way head office is divided by functional area and the centralisation of some of the production of savouries - looking at the advantages of this and of the distribution of branded products to gain economics of scale - reducing costs. Contrasted with the decentralisation of the eight divisions within the Greggs brand itself that allows for regional variations to be catered for and products to be fresher when they reach the customer - increasing sales. However, is this efficient - are potential economies of scale lost here? Is there any tension between these two approaches?*
- *The mixture of a hierarchical business that does have some features of a matrix structure in its use of cross functional groups for particular projects - the examples given focus on areas that are directly related to customers. Does this create confusion/divided loyalties or does it bring the benefit of allow for sharing of expertise and views from different functions on specific issues to the benefit of the business?*
- *Consideration of how performance is to be measured - sales, profits, numbers of shops. These are all increasing - does this suggest that the structures are successful?*
- *Consideration of whether the current structure will be appropriate for the expansion abroad.*

<b>Level 4</b>	Evaluation/weighing up of the possible advantages and disadvantages of Greggs plc's organisational structure.	<b>(12-10)</b>
<b>Level 3</b>	Analysis demonstrated by considering the possible advantages and disadvantages of Greggs plc's organisational structure.	<b>(9-7)</b>
<b>Level 2</b>	Understanding of concepts involved demonstrated.	<b>(6-4)</b>
<b>Level 1</b>	Appropriate concepts and issues identified.	<b>(3-1)</b>

- 3 (a) Calculate Greggs plc's working capital position as at the end of 2004.

[4]

$$\begin{aligned}
 \text{Current Assets} &= \text{Stock} + \text{Debtors} + \text{Cash} \\
 &= \text{£7.3m} + \text{£13.9m} + \text{£62.6m} && [1] \text{ process} \\
 &= \text{£83.8m} && [1]
 \end{aligned}$$

$$\begin{aligned}
 \text{Working Capital} &= \text{Current Assets} - \text{Current Liabilities} \\
 &= \text{£83.8m} - \text{£74.8m} && [1] \text{ process} \\
 &= \text{£9m} && [1]
 \end{aligned}$$

(Apply OFR as appropriate)

- (b) Discuss the relative importance of the factors that could affect Greggs plc's cash flow.

[12]

Cash has gone up by 26.2m (72%) - very large increase. What has caused this? Why might the business want a large cash balance? What are the opportunity costs of holding cash? Looking at the individual components of working capital - closing stock, debtors up slightly, creditors up too. Working capital is positive - current assets will cover current liabilities. Comparisons with last year's figures. Consideration of the impact on cash flow of the following issues:

- Seasonal factors - good weather, Christmas
- Economic factors - eg downturn in retail sales
- Expansion, closing down and refurbishment of retail outlets/expansion abroad
- Wage costs/cost of energy rising
- Slow start to sales in 2004
- Marketing campaign in April 2004 - its cost and impact
- Investment in new factory

Weighing up of the factors and discussion of which is the most significant.

<b>Level 4</b>	Evaluation/weighing up of the relative importance of the factors that might affect Greggs plc's cash flow position.	<b>(12-10)</b>
<b>Level 3</b>	Analysis demonstrated by considering the implications of the factors that might affect Greggs plc's cash flow position.	<b>(9-7)</b>
<b>Level 2</b>	Understanding of concepts involved demonstrated.	<b>(6-4)</b>
<b>Level 1</b>	Appropriate concepts and issues identified.	<b>(3-1)</b>



**4 Evaluate the importance of quality control for Greggs plc. [11]**

*Batch production of sandwiches in the shops, bakeries and possibly some flow production in the factories making the savouries - different quality control issues in the different production environments. Decentralised structure/meeting regional needs and the need for fresh products - does this create quality issues? Use of TQM system to benchmark and identify areas for improvement. Vertical integration - control over production and good relationships with suppliers so the raw materials are of a high standard are important components of quality control. Quality issues are vital for the business both for customer satisfaction issues such as ensuring repeat purchase and recommendation but also for health and safety issues - eg to prevent bad publicity and potentially being sued.*

<b>Level 4</b>	Evaluation of the various issues relating to quality control for Greggs plc.	<b>(11-10)</b>
<b>Level 3</b>	Analysis demonstrated by considering the implications of quality control issues for Greggs plc.	<b>(9-7)</b>
<b>Level 2</b>	Understanding concepts involved is demonstrated.	<b>(6-4)</b>
<b>Level 1</b>	Appropriate concepts and issues identified.	<b>(3-1)</b>



**Mark Scheme 2873  
June 2007**

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- 1 (a) (i) **Kitty Tang has been employed as an unskilled production worker at FFN for the last six months. During the last four week period she worked 16 hours of overtime and one Saturday morning. Calculate her earnings for this period.** [4]

$$\text{Normal weekly wage} = 38 * \text{£}7.50 = \text{£}285 \quad (1)$$

$$\text{Normal wage for a 4 week period} = \text{£}285 * 4 = \text{£}1140 \quad (1)$$

$$\text{Overtime pay} = \text{£}11.25 \text{ (time \& a half)} * 16 + \text{£}36 = \text{£}216 \quad (1)$$

$$\text{Total wage} = \text{£}1140 + \text{£}216 = \underline{\underline{\text{£}1356}} \quad (1)$$

*(Correct answer with no working out = full marks)*

- (ii) **In the same time period, a qualified baker's basic earnings would be £1,501. By what percentage does a qualified baker's earnings exceed those of Kitty?** [2]

$$\text{Qualified baker's earnings} - \text{Kitty's earnings} = \text{£}145 \quad (1)$$

$$\text{Percentage difference} = \frac{\text{£}145}{\text{£}1356} * 100 = \underline{10.7\%} \text{ (Allow 10.69\% or 11\%)} \quad (1)$$

*(Correct answer with no working out = full marks)*

- (b) To what extent do you agree that Andy Brunt is not being adequately rewarded by FFN for his work as a qualified baker? [10]

*As a qualified baker, Andy's salary of £19,513 pa is only 11% above that of an unskilled production worker who is doing a relatively small amount of overtime. The question that needs to be asked is whether this extra pay is worth the additional work and responsibilities that being a qualified baker involves. We are told that with the other qualified baker, Andy has to mix the different products, monitor quality and supervise the production workers. We can also assume that he will have a role to play in planning and designing new products, as well as having to attend meetings with Kirsty and the other managers.*

*If the annual bonus related to profits is significant, then Andy will end up receiving significantly more than the extra 11% over and above a production worker. However, this bonus is unpredictable and cannot be planned for by Andy. This will cause problems for him in planning his household expenditure during the year and will cause doubt and uncertainty that may affect his motivation and job satisfaction. We are told that Andy is the longest serving of the qualified bakers and we may expect someone in his position to be surer of his financial situation.*

*During times when production and hence overtime is very high it may, in fact, be possible that Andy would earn less in a month than a production worker on time rate. In these circumstances it is much easier to conclude that Andy is being underpaid given his extra responsibilities.*

*It is also difficult for someone like Andy to accept a low bonus last year, given the near doubling in Net Profit. As he has been with the business a long time he may better appreciate the need for investment for the future growth of FFN. However, he will also have taken risks in working for the company during its initial years and may expect a reward for this loyalty.*

*However, money is not the only motivator. Andy is working for a family-orientated business. He is part of a small management team and so will feel more empowered. He may well have a close emotional link to the business (we are told that most of the workers are allergic to nuts or know someone who is). We also do not know what the typical salary for this sort of worker is in the industry. Could Andy get a better wage for similar skills and responsibilities elsewhere?*

*Candidates may argue that they agree or disagree with the suggestion that Andy is underpaid. However, they must justify their judgement using the context available to gain a Level 4 mark.*

<b>Level 4</b>	Some evaluation shown by supporting any judgement made about whether Andy is being paid adequately for the work that he does.	<b>(10-9)</b>
<b>Level 3</b>	Some analysis shown by questioning the suitability of the way in which Andy is paid/motivated.	<b>(8-6)</b>
<b>Level 2</b>	Some understanding shown of the situation that Andy is in.	<b>(5-4)</b>
<b>Level 1</b>	Some knowledge of methods of motivation, financial and/or non-financial. May include relevant but unsupported statements about Andy's situation.	<b>(3-1)</b>

- 2 “...within five years, supermarkets will be FFN’s main channel of distribution.”  
(Line 29).

**Discuss the implications of this change for FFN’s marketing mix.**

**[16]**

*The pattern of FFN’s distribution channels over the past four years is that there has been a fairly rapid shift away from local shops towards supermarkets. This trend is forecast to continue.*

*Price: Supermarkets, although buying in bulk, will expect to get ‘a better deal’. They rely on selling very cheaply and so will put pressure on FFN to keep its cost price as low as possible. Supermarkets have the power to put this sort of pressure on suppliers as they can threaten to go elsewhere for their supplies. There have also been widespread allegations in recent years that supermarkets have forced suppliers to sell below cost price and have generally acted in an unethical manner. There is much more competition for sales in a supermarket and FFN needs to understand that its local reputation will count for nothing on a national scale.*

*Product: Will FFN be able to produce in sufficient quantity and to the necessary standards demanded by a national retailer? The second factory may be needed sooner rather than later. Will the greater demand from the supermarkets force FFN to adopt the use of ready-made mixes and preservatives (because of the longer product life demanded by supermarkets), which is something that Kirsty seems dead against at the moment? However, as a market leader and if it is the first supplier to get its nut-free products on the shelves of the major supermarkets, FFN has a great chance to get a competitive edge on any competitors.*

*Promotion: Supermarkets expect their suppliers to jointly support and, more importantly, jointly fund promotion campaigns in store. For example, it is common for supermarkets to insist that suppliers supply products involved in a BOG OFF campaign free of charge. Can FFN afford this? Its profit margins are not that high. Can FFN afford national advertising campaigns? It is in truth, only a small regional bakery at the moment.*

*FFN is basically a niche supplier. Can it compete in the market place where price tends to be more important than quality? As a specialised product, will customers looking for nut-free products necessarily think to shop at a national supermarket for this? (Generally, there is evidence that customers do not trust the supermarkets when it comes to products such as nut-free/vegetarian/organic/free range etc.) Can FFN afford the promotion costs and does it want its products on the shelf next to products that do contain nuts? Ultimately, it may be argued that FFN will have to give up some of what its success has been based on to enable such rapid growth that may come from selling its products in the supermarkets.*

<b>Level 4</b>	Some evaluation shown by attempting to discuss which parts of the marketing mix will be most affected for FFN and/or the significance of any change.	<b>(16-13)</b>
<b>Level 3</b>	Some analysis of the impact on FFN’s marketing mix, making clear reference to the contextual material.	<b>(12-9)</b>
<b>Level 2</b>	Some understanding shown of change(s) that could be made to components of the marketing mix at FFN.	<b>(8-5)</b>
<b>Level 1</b>	Some knowledge of the marketing mix.	<b>(4-1)</b>

3 Evaluate the advantages and disadvantages to FFN of introducing Just-in-Time stock control. [16]

**JIT stock control means that a business will hold the smallest level of stock possible at any one time, with new stock arriving just as it is needed.**

**Advantages:** Less capital will be tied up in stock. We are told that FFN uses over 100 different ingredients and if more than sufficient amounts of stock are held that will be equal to a lot of money (over 40% of current assets in 2007 and rising) that could be used for more productive things such as the planned expansion. It will also help with the problems that Deepika mentions about the pressure on cash flow.

Less space will be needed for stock & storage costs will fall. This may free up space that again can be put to a more productive use. Ivan is already complaining about trying to keep track of where all the products are. Smaller amounts of each raw material would certainly help this problem.

Less waste. One would expect most of FFN's raw materials to be perishable. This means that waste will be a significant issue for them. With high turnover of stock there is less chance of things going out of date and having to be thrown away.

More flexible. If FFN was using JIT it can be more flexible to customers' demands and specific requirements. Given the nature of FFN's products it would want to ensure that products change in line with current dietary tastes and that if any suspicions were raised about pollution of a particular raw material with nuts, changes could be made quickly.

Closer monitoring of stock. When stock is kept to a minimum it is easier to keep a close eye on what is in stock. This may make it easier for the qualified bakers to carry out their supervisory responsibilities and make their small payment differential with the production workers less unsatisfactory.

**Disadvantages:** Greater reliance on suppliers. FFN uses more than 50 different suppliers. This means ensuring that all of them are sympathetic to the needs of JIT and can work to the tight deadlines. Any problems with late delivery or quality of raw materials will create problems for the production process and ultimately delivery to customers – an added problem when dealing with perishable products. Maybe FFN will need to reduce the number of suppliers it uses?

Loss of economies of scale and higher costs of frequent ordering. FFN may still be able to negotiate bulk-buying discounts based on its monthly consumption. Also, Kirsty's current infatuation with checking all incoming stock will not really be possible if JIT is used. In theory, materials should be arriving just minutes before they go on the production line.

With the proposed second factory, any cost savings from JIT will be welcome, although even greater planning and co-ordination of stock ordering and delivery will be necessary. The fact that the production line is not really automated may also cause problems, as production speed and, hence, knowing when stock will be required will be less predictable. Better answers may also question how easy JIT can be applied to a company using batch production.

Ultimately, a candidate who understands the benefits of JIT are financial in the long-term, whereas there is a greater short-term risk involved, should be rewarded at Level 4.

<b>Level 4</b>	Some evaluation shown by assessing whether JIT stock control would be practicable for FFN.	<b>(16-13)</b>
<b>Level 3</b>	Some analysis of the advantages/disadvantages for FFN's business of introducing JIT stock control.	<b>(12-9)</b>
<b>Level 2</b>	Some understanding shown of how the introduction of JIT could affect FFN.	<b>(8-5)</b>
<b>Level 1</b>	Some knowledge of JIT.	<b>(4-1)</b>



**4 Assess the usefulness of the final accounts as a means of FFN's stakeholders assessing the success of the business. [10]**

*As Deepika says, the final accounts are merely numbers on a piece of paper. In particular, any figures derived from the company's balance sheet are just a snapshot in time, which can change significantly on a daily basis. However, there are some benefits to certain stakeholders of looking at the accounts.*

*It mentions that Deepika is about to meet with venture capitalists, presumably to see whether they would be interested in investing in FFN to help fund the next stage of the company's expansion. They may be interested to see that FFN's low long-term liabilities, at the moment, relative to capital employed, is currently over 43%. This may encourage the venture capitalists to take on further debt in the company. The sales of FFN have grown at an impressive rate, 42% last year. This would give them some confidence that FFN is a viable business in the future. FFN's net profit margin has also grown from just over 11% in 2006 to just over 15% now.*

*This increase in net profit would also be relevant to the owners/managers of FFN. Kirsty and Stephen, as the main shareholders and managers, would be happy that their initial investment is returning an increasing level of profit. They may however be concerned by the growing level of debtors in the business. These now stand at just over 9% of sales revenue, compared to just over 5% in 2006. It may be that Kirsty accepts that this is a natural increase due to more of FFN's sales being to larger organisations (especially supermarkets) where they will expect longer trade credit periods.*

*Management will also be interested in the growing stock levels, although as a percentage of sales they are still below 8%, which is quite impressive. It is, however, something that managers would want to keep an eye on, as Ivan already seems to be doing given his recent discussions with Kirsty.*

*It must be remembered that these figures, particularly for debtors and stock are very limited. Just because stock/debtors was high on the 31 March of a particular year does not mean that this is the same throughout the year. If sales at FFN are seasonal then stock, in particular, will vary dramatically over the course of the year. This is just one reason why final accounts have a limited role to play in informing stakeholders. Deepika is right in worrying about how much anyone can learn about FFN's recent or future success from the financial accounts.*

**[NB: Use of ratio analysis is not required to access any level in the marking scheme]**

<b>Level 4</b>	Some evaluation shown by questioning whether the information contained in the accounts actually allows any reasonable conclusions to be made about FFN. Alternative methods of assessing FFN's success may be suggested.	<b>(10-9)</b>
<b>Level 3</b>	Some analysis of the usefulness of financial information available in Table 2 to show what a stakeholder could learn about FFN.	<b>(8-6)</b>
<b>Level 2</b>	Some understanding shown of what particular stakeholder(s) can learn from FFN's accounts.	<b>(5-4)</b>
<b>Level 1</b>	Some knowledge of what final accounts contain and/or who stakeholders are.	<b>(3-1)</b>



**Mark Scheme 2874  
June 2007**

**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, ie 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 Sections in bold refer to possible issues/content that the candidate might use. These 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 candidates' expression
  - (b) the structure and presentation of ideas
  - (c) their 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 the structure and presentation of ideas  
OR the grammar, punctuation and spelling  
are such as to detract from the quality of the answer.

- 1 (a) Analyse two factors which might encourage customers to buy products from WOF. [6]

*A number of factors including price; quality of service; delivery times; range of products; brand loyalty; promotion; word of mouth, etc*

<b>Level 3</b>	Analysis of factor(s) in the context.	<b>(6-5)</b>
<b>Level 2</b>	Application and/or understanding of factor(s).	<b>(4-3)</b>
<b>Level 1</b>	Identification of factor(s).	<b>(2-1)</b>

- (b) Dan was keen to assess the effects of the most recent change in advertising expenditure.

- (i) Calculate the advertising elasticity of demand from April to May. [4]

*Calculation:*

*April spend: £700*

*May spend: £840*

*Percentage increase =  $\frac{140}{700} \times 100 = 20\%$  (2)*

*Elasticity is  $\frac{\% \text{ change in demand (sales)}}{\% \text{ change in advertising}} = \frac{7}{20} = 0.35$  (2)*

A correct response with no working shown should be rewarded with full marks.

- (ii) Evaluate how Dan might assess the effectiveness of spending on advertising. [16]

*Several factors and the table might help candidates. Can the link between the spending and sales be made? Are there other factors to consider? Could he ask customers to fill in questionnaires? How easy would that be to do? Could he trust the results? Is there a time lag between the spending on advertising and sales? How important are external factors? The local economy, etc*

<b>Level 4</b>	Evaluation of the factors in relation to effectiveness of advertising in context.	<b>(16-10)</b>
<b>Level 3</b>	Analysis of the factor(s) in the context.	<b>(9-6)</b>
<b>Level 2</b>	Application/understanding of the factor(s).	<b>(5-3)</b>
<b>Level 1</b>	Identification of factor(s).	<b>(2-1)</b>

- 2 (a) Analyse the possible advantages to WOF of personal selling. [6]

*Personal selling is employed by the telesales staff of WOF and Option D hopes to extend it. The main advantages relate to the direct contact that exists between the seller and the buyer. Products can be explained and features pushed. The possible expansion into IT products and services will be enhanced with greater use of personal selling.*

<b>Level 3</b>	Analysis of the advantage(s) of personal selling using example(s).	<b>(6-5)</b>
<b>Level 2</b>	Application/understanding of personal selling.	<b>(4-3)</b>
<b>Level 1</b>	Knowledge of personal selling.	<b>(2-1)</b>

- (b) Develop and justify a marketing strategy that Dan could employ for WOF. [16]

*Much to discuss in terms of the individual aspect of the 4 P's. The options should form the basis of many of the answers. The strategy should reflect the type of customers (largely commercial) and should include aspects of the options where necessary. Each of the 4 P's could be considered but stronger answers will write strategically (based on objectives, etc).*

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

- (c) Assess the effectiveness of Ansoff's Matrix in helping Dan to decide between the options. [10]

*Ansoff's Matrix considers different strategies that could be employed based on whether the firm is considering market penetration, market development, product development or diversification. The options broadly fit into these categories eg option B is market development. Stronger answers will consider whether Ansoff's helps – both positive and negative viewpoints might score highly.*

<b>Level 4</b>	Evaluation of the use of Ansoff's Matrix, in the context.	<b>(10-9)</b>
<b>Level 3</b>	Analysis of Ansoff's Matrix in the context.	<b>(8-6)</b>
<b>Level 2</b>	Application/understanding of Ansoff's Matrix.	<b>(5-3)</b>
<b>Level 1</b>	Some knowledge of Ansoff's Matrix discussion of the options.	<b>(2-1)</b>

**Mark Scheme 2875  
June 2007**

**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, ie 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.
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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 CEP's return on net assets employed in 2006. [4]

Profits in 2005 = £900, 000 [1]  
 2006 5% higher. Thus £945, 000 [1]  
 Return on assets employed = profit/net assets % = 945, 000/£6m % [1]  
 = 15.75% [1]

- (b) Analyse the implications for the business of CEP's

- (i) policy of high dividend payments to shareholders; [6]

*In 2006 profits rose by 5% while dividends rose by 30%. A business uses its post tax profit either to pay dividends or to reinvest back in the business. The strategy of high dividends means that a disproportionate share of profits is leaving the business and hence funds are not being ploughed back. This in turn means either a cash shortage or a resort to debt. In the case of Cartwright, debts have risen sharply in part consequence of this strategy. The merits of the strategy are that it keeps shareholders sweet, enhances their return on equity and possibly increases their willingness to buy more share in the future.*

<b>Level 3</b>	Analysis of the strategy focusing on the implications of the approach for Cartwright's cash position.	<b>(6-5)</b>
<b>Level 2</b>	Understanding of the issues in context.	<b>(4-3)</b>
<b>Level 1</b>	Knowledge of concept of dividend payments but consequences ignored.	<b>(2-1)</b>

- (ii) change in the value of goodwill in the accounts. [6]

*Goodwill is an intangible asset and as such is difficult to value. It arises when a business is acquired for more than the book value of its assets. In effect, the acquired business is deemed to be worth more as a going concern than the sum of its parts. It represents a name or in this case, more likely, a customer base. It is always a cause for concern in a balance sheet as it raises questions regarding the purchase price of the business and whether the value actually exists. It can represent a drag on future profits if it has to be written off.*

<b>Level 3</b>	Candidate both identifies and analyses the implications of the change in goodwill.	<b>(6-5)</b>
<b>Level 2</b>	Candidate shows understanding of the concept in context.	<b>(4-3)</b>
<b>Level 1</b>	Candidate shows knowledge of the concept.	<b>(2-1)</b>

- (c) Using ratio analysis and other quantitative data, evaluate the financial position and performance of CEP in 2006. [16]

	2005	2006
net profit/assets %	20	15.75
net profit/sales %	18	15.75
sales/assets [times]	1.11	1

*The debt situation of the business has increased significantly. Long term liabilities have risen by £1.8m, short term debts by £1.7m*

*The current ratio has also massively worsened so that in 2006 it was 0.44 [2005 figure was 7.2]. The business has no ready cash and an overdraft £1.4m.*

*Thus the position identified is one where the profitability of the business has deteriorated along with a decline in profit margins and efficiency. [Further ratios also could be generated, such as stock turnover]. General picture is similar throughout.*

*The main problem is one of funding. Without an injection of shareholder's funds the business will surely collapse. It has little unsecured collateral to underpin further debt. The business is over trading. Note that goodwill has been increased in value not usually a good sign in accounts.*

*Performance is usually assessed either with reference to other similar businesses [not possible in this instance] or historically [limited data available for 2005 only] or against targets [2006 return on assets target 25%]. Thus evaluation clearly not comprehensively based. However, the performance is not as strong as David suggested and the financial is perilous.*

<b>Level 4</b>	A reasoned evaluative conclusion regarding the financial position and performance of the business is arrived at.	<b>(16-10)</b>
<b>Level 3</b>	Analysis of data is carried out but answer fails to go beyond the figures.	<b>(9-6)</b>
<b>Level 2</b>	Understanding of performance is shown in context but done in discursive manner.	<b>(5-3)</b>
<b>Level 1</b>	Knowledge of performance indicators shown.	<b>(2-1)</b>

- 2 (a) **Assess the usefulness of cash flow forecasts as an aid to management decision making in CEP.** [10]

*Cash flow forecasts are a prediction of the timing and amount of cash moving in and out of a business over a given time period. They are used so that cash imbalances can be predicted in terms of amount and duration. Thus they are a crucial aid to business plans as they convert business strategies into cash requirements, along with an assessment of the ability of the business to fund expenditure. Cartwright has a weak liquidity position. Its cash reserves are nil and a significant overdraft exists. It plans fast growth and there is a real danger that the business might overstretch itself and run out of cash. These forecasts will aid thought processes and allow potential financial backers to assess needs and requirements.*

<b>Level 4</b>	Evaluative judgement on the technique with a focus on assessing its role in financial management.	<b>(10-9)</b>
<b>Level 3</b>	Comments are analytical and demonstrate exactly how cash flow forecasts operate.	<b>(8-6)</b>
<b>Level 2</b>	Comments show understanding in context.	<b>(5-3)</b>
<b>Level 1</b>	Comments show knowledge of technique but little else.	<b>(2-1)</b>

- (b) **Evaluate CEP's growth strategy from the point of view of different stakeholders.** [16]

*Stakeholders represent groups of people who have direct or indirect interest in a company. Thus they include groups like employees, shareholders, customers, suppliers, management, creditors, fund providers and society at large. Usually growth opens up opportunities and conveys benefits to most stakeholders. More outlets should mean higher sales turnover and higher profits [good news for shareholders, especially if high dividend payouts follow]. Senior management often find salaries linked to size and, hence, good news for them as well [promotion possibilities]. Employees see growth as securing job prospects and, hence tend, to welcome it as well. Similar thoughts run through the minds of suppliers. However, in the case of Cartwright the financial position of the business is precarious. Debts are far too high in relation to capital employed. The business is far too highly geared and its liquidity is very weak. Further growth might simply be a step too far. This could result in bankruptcy and general insolvency. Thus all stakeholders would lose out here. Thus evaluation of the strategy implies assessment of the risks that it would entail and they appear too great unless the extra funding required comes from shareholders.*

<b>Level 4</b>	Evaluative comments based upon assessment of the position of the business.	<b>(16-10)</b>
<b>Level 3</b>	Analytical comments based upon evidence in case.	<b>(9-6)</b>
<b>Level 2</b>	Comments that show understanding of some of the issues facing stakeholders treated discursively.	<b>(5-3)</b>
<b>Level 1</b>	Comments show knowledge of stakeholders.	<b>(2-1)</b>



**Mark Scheme 2876**  
**June 2007**

**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, ie 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
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  - (c) the grammar, punctuation and spelling.
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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, calculate the percentage increase in the number of rejects between December 2006 and May 2007. [2]

$$\frac{331}{1166} \times \frac{100}{1} \quad (1) = 28.39\% \quad (2)$$

*NB Award 2 marks for correct answer with no workings.*

- (ii) Using Table 2, calculate the percentage of complaints made by customers about goods produced by agency workers. [2]

$$\frac{104}{128} \times \frac{100}{1} \quad (1) = 81.25\% \quad (2)$$

*NB Award 2 marks for correct answer with no workings.*

- (b) Analyse two possible consequences to HDCL if John continues to use agency workers. [6]

*The above answer shows that rejects have increased by 28.39% overall, over the measurement period (December 2006 - May 2007). Of the overall total of 7986 rejects, 5649 have been traced back to agency workers. Whilst there are no further figures, the evidence would seem to suggest that the number of rejects overall will keep on increasing if John relies on agency workers as a stop-gap. This trend is likely to become exacerbated when there are surges in demand and even more agency workers are required, particularly as permanent staff are reluctant to work overtime.*

*Furthermore, data in Table 2 shows that more customer complaints occur with regard to products made by agency workers. This would seem to suggest that customer complaints about products made by agency workers will also increase if the trends in Table 2 continue with a similar pattern.*

*There is also a strong suggestion that the permanent workforce is becoming more demotivated, do not like training the agency workers, and have actually considered strike action if John continues to increase the number of agency workers. If this threat is followed through it would have a negative effect on production (via a work to rule, strike, etc) and worker - management relationships would be worsened. This sort of action would almost certainly affect customer orders, with a consequent negative effect on reputation, future sales, etc.*

<b>Level 3</b>	Candidate demonstrates analytical skills when considering possible consequences of John continuing to use agency workers.	<b>(6-5)</b>
<b>Level 2</b>	Candidate demonstrates the ability to apply knowledge relating to the use of agency workers in a business.	<b>(4-3)</b>
<b>Level 1</b>	Candidate offers relevant theoretical knowledge only.	<b>(2-1)</b>

**(c) Discuss methods HDCL could use to reduce the need for agency workers.****[16]**

*If the company does not appoint a personnel specialist the methods used may be simple and straightforward. As the jobs require limited skills it could use the services of a job centre, which is often quite cheap and effective. It could use word of mouth, encouraging current employees to tell friends, relatives of any vacancies, but as it is currently having problems recruiting it may have already tried these methods with little success.*

*HDCL could try local radio, which is listened to by the target population, or use adverts in local newspapers for the same reason. We are not actually told what methods HDCL currently uses, but it would be safe to assume that it has used all the above methods with limited success. This could be due to the local labour market conditions being unfavourable, ie unemployment is low, other employers are offering better wages, more interesting work.*

*HDCL could advertise on the Internet, a much more frequently used method these days, if it has a [www.hdcl.co.uk](http://www.hdcl.co.uk) website it could advertise there as well, as both these methods are relatively inexpensive and used by an increasing number of advertisers and job-seekers.*

*HDCL could pay permanent workforce by performance to encourage them to work harder/faster but this may compromise quality which is already proving to be a problem, but with less need for agency workers (who generate increasing numbers of rejects) this problem may not be such an issue.*

*There is obviously no right answer; the question requires candidates to understand the need to apply knowledge of recruitment methods within the context of the case study business.*

<b>Level 4</b>	Candidate demonstrates evaluative skills when considering methods HDCL could use to minimise the number of agency workers.	<b>(16-10)</b>
<b>Level 3</b>	Candidate demonstrates analytical skills when considering methods HDCL could use to minimise the number of agency workers required.	<b>(9-6)</b>
<b>Level 2</b>	Candidate demonstrates the ability to apply knowledge of suitable methods to a business.	<b>(5-3)</b>
<b>Level 1</b>	Candidate offers relevant theoretical knowledge only.	<b>(2-1)</b>



- 2 (a) To what extent do you agree with John's view concerning the appointment of a personnel specialist? (See lines 47-48) [10]

*Sandra has not been replaced despite several months elapsing since she abandoned her personnel role. During this time there seems to have been a deterioration in industrial relations, recruitment of permanent workers seems to be more of a problem, quality standards are falling, reject levels are increasing, customer complaints are escalating, all at a time when sales levels are stabilising. All these issues would fall directly under the scope of a new personnel specialist who would have the necessary skills and expertise to tackle such problems.*

*It would appear that John, and the rest of the management at HDCL, have not made a very good job of dealing with these issues so far. A personnel specialist would also be better equipped to deal with other issues mentioned in the case study - for example, motivation and training.*

*John is right that the recruitment of such a specialist would add extra costs, but the costs are likely to be outweighed by the benefits accruing from a more experienced and positive approach to each of the problem areas/issues. To describe the extra costs as unnecessary would seem rather naïve in relation to the number and potential gravity of the problems being experienced by HDCL at the present time.*

*A personnel specialist would provide a staff function, being able to deal specifically with people related issues but also give help, advice, guidance and support to line managers. This would allow John, and other managers/supervisors, to concentrate more on their own specific area of responsibility, with help and support from personnel with regard to specific HR issues.*

*Better candidates may consider short versus long term issues.*

<b>Level 4</b>	Candidate demonstrates evaluative skills (eg costs v benefits) when considering the extent to which John's view concerning the appointment of a personnel specialist is appropriate.	<b>(10-9)</b>
<b>Level 3</b>	Candidate demonstrates analytical skills when considering John's view about the appointment of a personnel specialist.	<b>(8-6)</b>
<b>Level 2</b>	Candidate demonstrates the ability to apply knowledge relating to the appointment of a personnel specialist in a business.	<b>(5-3)</b>
<b>Level 1</b>	Candidate offers relevant theoretical knowledge only.	<b>(2-1)</b>

- (b) Analyse two possible implications for HDCL of inadequate health and safety training. [6]

*In the case study we are told that the permanent staff resent having to continually train agency workers in basic health and safety awareness. This may mean that they do not carry out the necessary training particularly well, or even at all. Whilst we do not have data for accidents, etc it would be safe to assume that the agency workers are the ones who are most at risk, HDCL has a duty of care to its permanent employees, agency workers, and anyone visiting the factory. HCDL also has to adhere to HASAW legislation and could find itself liable to fines/closure for any non-compliances.*

*If anyone gets injured, HDCL may find that it has to spend a considerable amount of time/effort/money investigating any accidents and rectifying any particular issues. This will leave it liable to court action/payment of compensation to any injured parties in the event of any such issues, it may find itself on the receiving end of negative publicity from local media, and it may get a bad reputation making it harder to get permanent/ agency staff.*

*Some customers, particularly as the company makes health related products, may decide not to do business with a supplier which pays scant attention to health and safety issues. This may affect HSCL quite badly as it is in a specialist market and probably relies upon repeat orders from regular customers for a considerable part of its orders.*

<b>Level 3</b>	Candidate demonstrates analytical skills when considering possible implications to HDCL of inadequate health and safety training.	<b>(6-5)</b>
<b>Level 2</b>	Candidate applies knowledge of health and safety to a business which has an inadequate approach to such issues.	<b>(4-3)</b>
<b>Level 1</b>	Candidate offers only theoretical knowledge relevant to health and safety issues/training.	<b>(2-1)</b>

**(c) Evaluate the possible human resource implications of a further deterioration of industrial relations at HDCL. [16]**

The implications may be affected by whether or not John decides to appoint a specialised personnel person. If not, and the situation is handled badly, the permanent workers may decide to carry out their threat of going on strike, working to rule, etc. If this happened, management/worker relations would suffer and the company would need to negotiate with the workforce/union. This would mean that other management tasks would not be carried out/not carried out as effectively.

ACAS may become involved; this could be a help or further hindrance depending upon how negotiations progressed. John could try to get round the problem by using even more agency workers, this would be more expensive and may exacerbate the industrial relations problems even more.

The company might find it even more difficult to recruit permanent workers due to adverse publicity of the worsening industrial relations climate. This situation could be made even worse by adverse publicity from the media.

Even if the issues are resolved, there may be a negative effect on worker morale and motivation which may have negative effects on productivity, quality etc.

Better candidates will discuss possible implications and form some supported judgement about the most significant implications and the severity of those implications, in context.

<b>Level 4</b>	Candidate demonstrates evaluative skills when considering the possible HR implications of a further deterioration in industrial relations at HDCL.	<b>(16-10)</b>
<b>Level 3</b>	Candidate demonstrates analytical skills when considering the possible HR implications of worsening industrial relations at HDCL.	<b>(9-6)</b>
<b>Level 2</b>	Candidate demonstrates the ability to apply knowledge of industrial relations problems in a business.	<b>(5-3)</b>
<b>Level 1</b>	Candidate offers relevant theoretical knowledge only.	<b>(2-1)</b>



**Mark Scheme 2877**  
**June 2007**

**General**

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  - (c) the grammar, punctuation and spelling.
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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) Analyse two benefits to SFDL of having all production, warehousing and distribution facilities on one site. [6]

*It enables production and distribution to be co-ordinated to meet the customers' demand efficiently. Delivery times should be shortened. It would be beneficial should the switch to flow production take place.*

*Handling of the products should be minimised. This should mean less damaged products. Stock is also readily available and doesn't need further transportation. Cost should be lower as movement of finished products from processing to distribution is minimised. This helps SFDL in a very competitive market.*

*Gives SFDL greater flexibility and control – eg should be able to meet special orders – use its own drivers and pay overtime if necessary.*

*However:*

*The set-up costs will be high.*

*The overheads involved will be high, eg delivery lorries, wages, tax on vehicles and servicing etc.*

*Such expense can only be justified if the capacity utilisation is high and does not vary much throughout the year.*

*Many firms sub-contract transportation to road hauliers these days.*

<b>Level 3</b>	For analysing the benefits to SFDL of having all production, warehousing and distribution facilities on one site. Candidates may also analyse by discussing possible drawbacks of having all aspects of operations and distribution on one site.	<b>(6-5)</b>
<b>Level 2</b>	For demonstrating an understanding of the benefits to SFDL of having all production, warehousing and distribution facilities on one site. If the answer is not in context but shows a clear understanding of the benefits to SFDL of having all production, warehousing and distribution facilities on one site, then award marks at the lower end of this level.	<b>(4-3)</b>
<b>Level 1</b>	For showing knowledge of the benefits to SFDL of having all production, warehousing and distribution facilities on one site.	<b>(2-1)</b>

(b) Analyse two reasons why it is important for Marketing and Operations to work together at SFDL. [6]

- *Planning – it is important for all functional areas at SFDL to work together. The resources required to put plans into action may not be there.*
- *Co-ordination – this is particularly important between marketing and operations at SFDL – there are a number of references in the CS to activities where operations and marketing work together.*
- *To test out new ideas – marketing may come up with possible products through research whilst operations can see if the products are feasible.*
- *It helps with the scheduling of orders – operations needs to meet delivery dates agreed by marketing.*

<b>Level 3</b>	For analysing the reasons why it is important for Marketing and Operations to work together at SFDL. Candidates may analyse the implications or point out advantages and disadvantages – a “however” approach.	<b>(6-5)</b>
<b>Level 2</b>	For demonstrating an understanding of reasons why it is important for Marketing and Operations to work together at SFDL. If the answer is not in context but shows a clear understanding of why it is important for functional areas of a business to work together, then award marks at the lower end of this level.	<b>(4-3)</b>
<b>Level 1</b>	For showing knowledge of reasons why it is important for Marketing and Operations to work together at SFDL.	<b>(2-1)</b>



- (c) Evaluate the implications for SFDL of switching “*more lines to continuous flow production lines over the next three years*” (line 39-40) [16]

*Flow production involves a very large scale of production of a standardised product on a line that continuously produces that product.*

*Advantages:*

- *Unit costs are reduced due to economies of scale*
- *The process can be highly automated using the latest technology, reducing manpower needs to only requiring machine supervision, and offering more consistent quality levels*
- *There may be an opportunity to reduce stock levels of both materials and finished products – there may be the opportunity to operate just-in-time.*
- *The volume of output of the business should be increased therefore higher sales revenue could be gained.*

**but**

- *Set up costs are high*
- *The product being standardised means there is no opportunity for variations in product range to meet the needs of different customers*
- *Worker motivation (with the implications of this) might fall for various reasons, eg redundancies; repetitiveness; deskilling, etc*
- *Breakdowns can prove costly as the whole system becomes more interdependent.*

**The choice of production method depends on:**

- *The nature of the product – how much variation is there in customer requirements for juices and drinks?*
- *The size of the market – will the phenomenal growth of the drinks market continue or will it be more for niche products? Do tastes frequently change?*
- *The state of technology – how sophisticated is the technology in this industry?*
- *The size and financial status of the firm – can it afford this investment? – it is owned by a large US multi-national!*
- *Does batch give more flexibility?*
- *Has there been a lot of investment in other lines recently – will these become obsolete?*

<b>Level 4</b>	For evaluating the implications for SFDL of switching more production lines from batch to flow.	<b>(16-10)</b>
<b>Level 3</b>	For analysing the implications for SFDL of switching more production lines from batch to flow. Candidates may analyse the implications through looking at the impact on the business or point out advantages and disadvantages – a “however” approach.	<b>(9-6)</b>
<b>Level 2</b>	For demonstrating an understanding of implications for SFDL of switching more production lines from batch to flow. If the answer is not in context but shows a clear understanding of a business switching more production lines from batch to flow then award marks at the lower end of this level.	<b>(5-3)</b>
<b>Level 1</b>	For showing knowledge of implications for SFDL of switching more production lines from batch to flow.	<b>(2-1)</b>

- 2 (a) The Operations Manager has produced a forecast activity duration sheet for the possible Mango, Orange and Banana Smoothie order. Refer to table 1 and figure 1.
- (i) Calculate the earliest start time for activity K  
Day 10 1 mark
- (ii) Calculate the latest finish time for activity J  
Day 11 1 mark
- (iii) What is the total float for M?  
0 or zero 1 mark
- (iv) What is the minimum number of days it will take to complete the order if there are no delays in the production schedule?  
14 days 1 mark
- (b) Discuss whether Critical Path Analysis is a useful technique for helping SFDL decide whether to accept the supermarket order. [10]

*Issues for consideration:*

*Analysis of the data shows the order should take 14 days to complete and the supermarket want delivery in 28 days therefore there should be adequate time according to the CPA.*

*Pros:*

- *Careful planning will show the order in which events need to occur and the time taken. This could be invaluable when an order such as this has to be fitted into a tight production schedule.*
- *It might encourage SFDL to look for ways of shortening the production process*
- *Resources can be ordered in advance, eg raw materials such as packaging or fruit, workers scheduled, maintenance pre-planned, etc*
- *Alternative possibilities could be explored if the CPA suggests problems meeting the order time. However, would SFDL sub-contract?*
- *CPA is a useful concept for large firms such as SFDL when scheduling orders for a wide range of customers.*

*Cons:*

- *How useful is such a technique to firms where little project planning is required eg who make a small range of product? It is an expensive exercise. However, SFDL makes a large range of products for companies who are likely to demand delivery at short notice, such as this order.*
- *It is only a diagram/technique and practical problems eg transport disruption, problems with the materials, and/or poor management, can still lead to an order, such as this, not being completed on time.*

<b>Level 4</b>	For evaluating whether CPA is a useful technique for helping SFDL plan whether to accept the order	<b>(10-9)</b>
<b>Level 3</b>	For analysing whether CPA is a useful technique for helping SFDL plan whether to accept the order. Candidates may analyse the usefulness through looking at the impact on the business or point out advantages and disadvantages – a “however” approach.	<b>(8-6)</b>
<b>Level 2</b>	For demonstrating an understanding of whether CPA is a useful technique for helping SFDL. If the answer is not in context but shows a clear understanding of whether CPA is a useful technique in any business then award marks at the lower end of this level	<b>(5-3)</b>
<b>Level 1</b>	For showing knowledge of whether CPA is a useful technique	<b>(2-1)</b>

	for helping SFDL plan whether to accept the order	
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**(c) Evaluate why quality is important for SFDL****[16]**

*If SFDL has good quality control systems this will give the company a competitive advantage. This:*

- *Will have an impact on sales and profits and market share. The converse is poor quality will reduce sales.*
- *Will give the company a good reputation, if lost this might be difficult to rebuild.*
- *Is less likely to lead to claims against the company for damages or possible prosecution if standards set in law have not been met.*
- *Means fewer goods may have to be recalled and this leads to extra costs for the business*
- *Might impact on the price a company can charge for its products. High quality = premium process.*
- *Other relevant points might be made.*

<b>Level 4</b>	For evaluating why the control of quality is important for firms like SFDL	<b>(16-10)</b>
<b>Level 3</b>	For analysing why the control of quality is important for firms like SFDL. Candidates may analyse the reasons through looking at the impact on the business or point out advantages and disadvantages – a “however” approach.	<b>(9-6)</b>
<b>Level 2</b>	For demonstrating an understanding why the control of quality is important for firms like SFDL. If the answer is not in context but shows a clear understanding of why the control of quality is important for firms then award marks at the lower end of this level.	<b>(5-3)</b>
<b>Level 1</b>	For showing knowledge of why the control of quality is important for firms like SFDL	<b>(2-1)</b>



**Mark Scheme 2879  
June 2007**

## Marking Strategy

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

In using the criteria:

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

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

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

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

### Assessing the Plan

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



**Mark Scheme 2880**  
**June 2007**

**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 pass through all lower levels of response.
- In assessing quantitative answers the “own figure rule” (OFR) must be applied, ie a candidate must be given credit for calculations which, though wrong, are consistent with an earlier error.
- Material 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 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 candidates' expression
  - the structure and presentation of ideas
  - their 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.

**1 To what extent might an increase in interest rates affect achievement of BBY's 2008 objectives?** [18]

*Interest rates: cost of borrowing and the reward for saving. 2008 target is £150m sales. Increase in sales 2005 to 2006 is 12.6% (2006 £131,834, 2005 £117,077). Assume same rate of growth then projects to 2007 £148,445 and 2008 £170,118, so target sales revenue looks achievable assuming no change in context. In fact, might argue that 2008 sales target is too accessible and as such may not give a real incentive to strive for.*

*Given the target market, net savers, then an increased interest rate will deliver them higher incomes on their savings, so possibly boosting demand, and hence BBY's sales. However, increased interest rates might slow housing price growth and so affect household confidence, reducing the willingness to spend. Extent that the rise in interest rates will ease ability to meet target; therefore, depends upon the degree to which BBY's market are net savers. A possibility is that with bank deposits earning higher interest then customers might be unwilling to withdraw balances to make a significant purchase such as BBY's holiday, so delaying purchase until rates are less attractive for saving. So, again achievement of target will reflect the purchasing confidence of the target market. But, BBY holidays are aspirational, and as such customers might have made up their minds a long time ago, and, therefore, will be determined to travel regardless of macro economic conditions.*

*Further, increased interest rates would lead to an appreciation of sterling, so again making overseas travel more attractive to customers.*

	<b>2006</b>	<b>2005</b>
RONA	18.9%	18.7%
NA t/o	12.3x	11.8x
Profit margin	1.6%	1.6%
ROE	15.8%	12.7%
Gearing	0%	0%
Int. Cover	n/a	n/a

*One way to boost ROE is to swap equity with debt, but in a climate of increasing interest rates the debt burden would increase, so harming profits.*

*So rising interest rates cause conflicting pressures. Sales likely to rise so making £150m target achievable, but interest in P/L might rise to depress ROE.*

<b>Level 4</b>	Discussion is evaluative in balancing different possibilities.	<b>(18-13)</b>
<b>Level 3</b>	Case material is subject to analysis in considering the external influence on objectives.	<b>(12-8)</b>
<b>Level 2</b>	Describes how interest rates might impact on BBY's ability to meet its 2008 objectives.	<b>(7-4)</b>
<b>Level 1</b>	Demonstrates knowledge of interest rates or objectives.	<b>(3-1)</b>

**2 From the perspective of different stakeholders, was BBY's withdrawal from Tabakistan a sound business decision? [19]**

*Stakeholders are those with an interest in the business, such as customers, owners, employees, community, etc. Note, although there are groups of stakeholders there will be different views both between groups and within groups and this variation offers scope for evaluation.*

*Analysis of Fig. 1 gives EMVs of*

<i>Node 1 = (£3.4m)</i>	<i>Node 2 = (£6.1m)</i>
<i>Node 3 = (£6m) better than (£6.1m)</i>	<i>Node 4 = (£3.4m) better than (£6m)</i>
<i>Node 5 = (£4.96m)</i>	<i>Node 6 = (£4.96m) better than (£5m)</i>

*So, according to the decision tree BBY should continue to offer Tabakistan and if there is an FCO warning pull out, but if there is no FCO warning continue. Pulling out means certain £5m loss, whereas if it continues there is a chance that the benefit will be £2m, but with up to a £10m loss if there is a bombing. So, view will reflect the stakeholders' perception of the risk and their willingness to take that risk.*

*For customers they may feel the decision is the right one given the possible downside and providing another suitable holiday can be found, then they may well be happy. However, others may feel that the element of risk would enhance the holiday experience (!) and so view the decision as too cautious. Further, if the holiday is that long promised adventure they may well feel very disappointed by it. Much would depend upon what BBY does if it pulls out of Tabakistan, offer money back without any quibble or seek to offer an alternative.*

*For shareholders, Tabakistan represents 4% of 2006 sales (£5.27m revenue, £0.54m gp assuming that gpm to Tabakistan is the average for the group). Further, market is growing at 9%, third biggest of all the destinations in Table 1, hence pulling out represents a significant loss of future business. NB, the decision reduces the firm's portfolio, so where will the lost income be made up?, what happens to the resources currently devoted to Tabakistan? Are they readily transferable? But the downside is the potential disaster, both SR, for the tour affected and for the business' LR reputation. How might BBY seek to gain the best of both worlds; go and enjoy the income but be ready to say that the advice from the FCO and the insurers was that the risk was within acceptable limits? But, is this ethical? Is it right to sell a product which is known to be potentially dangerous in the hope the worst does not happen?*

*Employees; two groups, those in Tabakistan and those at HQ. For those in the country, they have rather more to lose! They may feel the decision is, therefore, the right one. But Alice will feel disappointed and possibly her department will as well. Government may feel it is weak to give into terrorist threat and so be disappointed; but in contrast be relieved not to have to deal with the aftermath of UK residents being involved in a foreign tragedy.*

<b>Level 4</b>	The perspective of different stakeholders is reasoned explicitly in the context of BBY's withdrawal in arriving at a view.	<b>(19-14)</b>
<b>Level 3</b>	Case material is subject to analysis in considering how different stakeholders might view the decision.	<b>(13-9)</b>
<b>Level 2</b>	Demonstrates understanding of stakeholder(s) within the context of the decision taken by BBY.	<b>(8-5)</b>
<b>Level 1</b>	Demonstrates knowledge of stakeholder(s).	<b>(4-1)</b>



**3 Enquiries by Isabelle suggest Karma Cruising would be available for sale at £20m. Should Big Blue Yonder purchase Karma Cruising? Justify your view. [19]**

*Multiple issues include, does Karma offer a strategic fit to BBY?, is it good value?, how will it be financed?, impact on Operations?*

*Good value? Her ratio analysis shows ROCE of 9.1% (9.2%), profit margin of 1.1% (1.3%) on sales of £83m. If sales are £83m and profit margin is 1.1%, then profit is £0.913m. With ROCE 9.1% and profits of £0.913m, then asset value must be £10.033m. Price suggested is, therefore, a premium on book value; does Karma have this much goodwill/brand value? Does Karma own or lease the four ships? Age and condition of these ships? Might there be some degree of negotiation to get the price down to a more acceptable level. Further, Karma's ROCE is lower than BBY's and so post merger BBY's would fall, so reducing the attractiveness to investors for floatation.*

*Investment potential; 8% savings in administration and employment at a cost of £20m, 2006 savings are £4.563m + £6,741m = £11,304m x 8% = £904,320, giving an ARR of 4.52% and a PBP of 22.1 years. On both counts the purchase does not look especially attractive. How is the 8% saving to be achieved?, does this mean job cuts? If so, need to think about the HRM issues which will arise. If the price is £20m, how is the capital to be raised? BBY has a £24m cash balance so this does not appear to be a problem, unless it is held for some other reason.*

*Cruise market is growing, the customer base is not dissimilar, so offers opportunities for quick growth for BBY ahead of planned floatation. Use of Ansoff to suggest diversification if it is thought there is no overlap in customer base. But, if market is growing why is Karma not improving (ROCE is falling)? This might be an indication of business/management problems. Also, is there space in the cruise market for such a small operator alongside Carnival, etc? But, BBY's expertise as a niche operator might deliver benefits to Karma. Might BBY be able to broaden Karma's product range away from just Europe?, might there be possible synergies between the two operations? eg cruising in New Zealand, one of BBY's growing markets.*

*Integrating both firms will divert management attention away from the core activity which is not good news – given the 2008 movement toward floatation. This is made worse by the split site. With an increasingly tight local labour market it would make it difficult to run both operations from the existing BBY base; whilst moving BBY to Bradford would mean the loss of a valuable intangible asset; the product knowledge of BBY's flag floor operators.*

*Overall, what gives BBY its competitive advantage? Some might argue market reputation and employees. The acquisition should only go ahead if it would add to this position.*

<b>Level 4</b>	Discussion is balanced in evaluating whether to purchase KC.	<b>(19-14)</b>
<b>Level 3</b>	Case material is subject to analysis in considering the possible purchase of KC.	<b>(13-9)</b>
<b>Level 2</b>	A decision is offered following only descriptive use of the case material.	<b>(8-5)</b>
<b>Level 1</b>	Offers an unreasoned view regarding the purchase of KC.	<b>(4-1)</b>

**4 Recommend whether BBY should outsource its call centre to South Africa. [20]**

*Contract with TBT gives “potential for 50% saving in staff costs”. This initially looks very attractive, but! Assume that it is indeed 50% (note the source of the claim is TBT). Saving would be on operator wages, which are the equivalent of 50 operators at £16,000 pa, ie £0.80m, so annual saving £0.4m. But might need to add other employment costs, eg NI so maybe the saving would be a bit more, say 15%, at £0.46m.*

*2006 employment costs are £6.741m which would reduce by £0.46m to £6.281m, or a 6.8% saving in staff costs which is a long way away from the 50% claimed by TBT. But any firm would be interested in cost savings, so let us not be too dismissive. If saving feeds right through to profits, then pre-tax profits rise from £2,053m to £2,513m or 22.4% which is attractive. Although operator costs might fall, others could rise; as, in effect, BBY would have a split site, so senior staff would periodically need to visit Cape Town, etc.*

*But, it is not just about cost. Given the scenario painted in the case, a major source of BBY’s market position comes from the expertise/product knowledge/abilities of its operators who deal directly with the customers. Would TBT be able to offer the same level of customer service? If BBY offers Southern African holidays then possibly, but Table 1 suggests a world wide focus. Although TBT might in time be able to replicate the expertise which is on the flag floor, this may take some time, during which much might happen. If customer service/relationships decline, then the cost saving becomes a red herring because it means a greater loss in revenues. A £0.46m fall in sales is only 3.4% of gross profit, so sales do not have to fall far to make the net saving negative. So, need to consider customer reaction. First, would customers actually know where the call centre is? If yes, which is no means a certainty, then the question is would it matter to the typical BBY customer? Given the profile suggested in the case, they are likely to be educated and conservative, and, as such, may feel negative (lots of real examples of outsourcing call centres, BT, etc, and the negative impact this has had on their businesses). BBY operates in a very competitive market and so needs to be very careful when doing anything which might jeopardise its position. If the press got hold of the story, the possibility for damage is considerable.*

*Does BBY have any ethical/moral responsibility to its employees on the flag floor? What might happen to staff morale/behaviour in the period immediately up to the transfer of operations? might BBY experience a sudden increase in staff leaving who are keen to find a new job before there is a big influx of staff onto the local labour market? Indeed, any rumour of outsourcing might spark the same rash of departures. Also, need to consider the impact on the other staff, eg. marketing staff might start to fear their jobs are next. So, there is an issue of the management of change, even if the change does not actually happen!*

<b>Level 4</b>	Discussion is balanced in evaluating whether to outsource to TBT.	<b>(20-15)</b>
<b>Level 3</b>	Case material is subject to analysis in considering the possibility of outsourcing to TBT.	<b>(14-9)</b>
<b>Level 2</b>	A decision is offered following only descriptive use of the case material.	<b>(8-4)</b>
<b>Level 1</b>	Offers an unreasoned decision or demonstrates knowledge of outsourcing.	<b>(3-1)</b>

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

Unit Threshold Marks

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

Specification Aggregation Results

Overall threshold marks in UMS (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	10.7	28.6	51.9	72.6	87.2	100	6784
7811	12.4	40.3	70.5	91.0	98.6	100	4999

11783 candidates aggregated this series

For a description of how UMS marks are calculated see;  
[http://www.ocr.org.uk/exam\\_system/understand\\_ums.html](http://www.ocr.org.uk/exam_system/understand_ums.html)  
 Statistics are correct at the time of publication

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