

# **Business Studies**

Advanced GCE A2 H430

Advanced Subsidiary GCE AS H030

## **OCR Report to Centres**

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**January 2013**

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This report on the examination provides information on the performance of candidates which it is hoped will be useful to teachers in their preparation of candidates for future examinations. It is intended to be constructive and informative and to promote better understanding of the specification content, of the operation of the scheme of assessment and of the application of assessment criteria.

Reports should be read in conjunction with the published question papers and mark schemes for the examination.

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## CONTENTS

### Advanced GCE Business Studies (H430)

### Advanced Subsidiary GCE Business Studies (H030)

#### OCR REPORT TO CENTRES

<b>Content</b>	<b>Page</b>
Overview	1
F291 An Introduction to Business	2
F292 Business Functions	5
F293 Marketing	8
F294 Accounting	11
F295 People in Organisations	14
F296 Business Production	17
F297 Strategic Management	19

## Overview

This was the final January session for this qualification and the following reports by each Principal Examiner should be read in conjunction with the increasingly detailed mark schemes that are prepared for the benefit of examiners, centres and their candidates. Much of what is written is not dissimilar to previous sessions, but I would like to highlight a few common issues.

First, candidate performance, particularly by weaker candidates, is seriously hampered by a lack of technical business knowledge and language. So, for example, too many candidates at AS did not appear to know about benchmarking or lean production and too easily confused profit and revenue or price and cost; on the A2 papers there was a lack of familiarity with concepts such as employee participation, social costs, value analysis, the valuation of stock and time series analysis. Centres would be advised to ensure that all business terms mentioned in the published specification are taught to, and known by, candidates.

Second, most candidates are now very good at acquiring a significant number of the low level marks available but then appear unable to access as many of the higher level marks. This invariably comes down to not using the context available and/or not applying their answer to the required context. Another common issue mentioned in most of the following reports is that of candidates not answering the actual question set. This is sometimes because they do not take enough care in understanding what the question is asking or they do not consider who is the subject of the discussion in the question (eg is the question asking about the benefits of something for the business or for the employees.)

On a more positive note, it was very pleasing to note that there was little evidence of candidates running out of time, unless it was self-inflicted. Also, the candidates appeared comfortable with the different contexts used across the suite of examinations and these were very accessible. Unfortunately, handwriting and grammar did appear to take a further turn for the worse this series and in many cases this is significantly obstructing the assessment process.

## F291 An Introduction to Business

### General Comments

On the whole the candidates found the lower level marks relatively easy to achieve, but often did not phrase their answers in the context of TWP. This often meant a struggle to achieve Level 3 of the mark scheme, especially on questions 3 and 5. The paper is indeed ‘an introduction to business’ and candidates were not expected to know about house construction in any detail; however, sometimes not even a passing mention to the context of housing was made. For example on Question 3, answers stating ‘trained workers means good quality and quality means people will keep on a buying from TWP and this will keep up their sales and profit’ (almost as if the product was a box of soap powder) were necessarily weaker than those stating ‘a house is a very expensive purchase for someone and may be the most expensive thing they ever buy, so they want a quality house made by skilled workers. So training is important for increasing TWP’s sales’.

Similarly, on Question 5 many candidates tried artfully to discuss the importance of demographics and social trends without any mention of the ones likely to affect TWP! Even a fleeting mention of ‘an aging population’, ‘more people living on their own’ or ‘people want environmentally friendly houses as there’s a big interest in green issues these days’ was better than no mention at all.

There was still a tendency for many candidates to suggest that just about any action TWP took (from promotion to predicting trends) would automatically “increase profits”. This has been raised as an issue in previous e Principal Examiner’s Reports. Higher marks went to those candidates who understood that ‘revenue’ is not the same as ‘profit’ and that, when considering changes in the latter, TWP’s costs needed to be considered if the higher levels of the mark scheme were to be accessed. Candidates also need to be wary of confusing ‘price’ with ‘cost’. A detailed consideration of the nature of a business’ costs is not necessary on unit F291, but an acknowledgement of their existence certainly strengthens an answer. In the same vein, many candidates wrote that a course of action (such as training) would be ‘increase TWP’s productivity’. This was correct but the analysis of this (eg the saving of time and money because more houses could be built in the same period of time) was usually ignored. This can make all the difference between a mark for understanding (Level 2) and one for analysis (Level 3).

There was no evidence that candidates were short of time and very few missed out any of the questions on this paper. Poor handwriting and paragraphing remain an issue.

- 1 (a) Although only a two mark question this proved to be a good discriminator. There was some confusion between the determinants of supply and the determinants of demand but most candidates achieved at least one mark by mentioning factors such as the cost of labour or materials, planning permission, the finance TWP had available, market price, etc.
- (b) It was pleasing to see the determinants of demand well understood on this part of the question and a very large number of the candidates showed excellent knowledge and examination technique in order to answer the question with a factor stated and a brief, clear explanation of how it would affect demand. Full marks were common and where only a single mark was awarded it tended to be because there was no outline of the factor or because the outline was confused, eg ‘Other builders’ prices. If these go down, TWP’s demand will go up’.

- (c) Most candidates certainly knew what excess supply was but nevertheless did not answer very well. If present, diagrams were often disappointing and mainly at Level 1. A large number were meaningless with no labels on the axes or had demand and supply confused. Weaker candidates confused 'excess supply' with 'a new equilibrium caused by a change in supply'. This is an aspect for centres to work on.

Having said that, unit F291 is not an economics paper and an incorrectly drawn diagram or the absence of a one did not stop most candidates achieving Level 2 fairly quickly by demonstrating at least some understanding of the likely consequences of excess supply – even if it was not explained very clearly. Stronger analytical answers recognised that price was likely to fall in order to eliminate the excess supply and prevent a negative effect on TWP's cash flow which might otherwise have affected future house building development. Alternatively, there was the issue that there was likely to be a (large) opportunity cost in terms of 'tied up' funds.

- 2 It was encouraging to see that this was recognised as a question about ethical business behaviour, even if it was phrased in a different way to previous ones. There were a number of possibilities such as increasing brand awareness of TWP and attracting employees to the firm, but it required the consequences of these to be given in order to achieve marks for analysis. Comments about TWP selling more houses, increasing market share and increasing revenue were perfectly acceptable, as were those about reduced recruitment costs leading to more profit. In the main the question was answered well with many candidates achieving Level 3 for analysis and full marks were not uncommon.

For some reason a number of candidates thought that the sponsorship was 'the other way around', ie of TWP by local firms and this would 'be good because it would raise money for TWP'. This was completely incorrect and such responses gained no marks.

It was ironic that when so few candidates tried to evaluate on questions 3 and 5 that a number of them wasted time by attempting to evaluate the advantages against the possible disadvantages of community initiatives. The 'trigger' word in the question is important.

- 3 This was the type of question which required a candidate to sit back and think 'What is this question actually asking for?' and, to state the obvious, candidates *do* need to focus on the requirements of the question. When it specifies 'benefits to TWP', then candidates must respond appropriately. Too many candidates went off the point and talked about the drawbacks and benefits to *employees*. It was also quite common to launch into a long explanation of the different types of training – which was not required – with no regard to the implications for the business. Use of the context was often weak with many answers being too theoretical, making points which could apply to any business.

On a more positive note, there were, however, an encouraging number of responses which did show analysis in terms of, for example, increased productivity, meaning more houses could be built in a shorter time, a reduction in costs through less waste, a reduction in the costs of labour turnover due to improved motivation, and the improved likelihood of the sale of an expensive house because of the reputation for quality.

Evaluation (such as which benefit would be the most important or the extent to which training could help achieve the objective of increased dividends for shareholders) was, sadly, rarely evident. Centres need to encourage their candidates to take the next step beyond analysis and to use phrases such as 'this depends on...', and 'in comparison with...' to help them achieve evaluation and therefore the highest reward.

- 4 (a) This part of the question had not been asked before but it was tackled quite confidently. Those candidates who answered the question and applied their response to *managerial problems* achieved both of the available marks. Typical responses were communication and coordination problems, slower decision making, and the business having different objectives in different regions.
- (b) A well answered question. Very few candidates failed to achieve all the four marks available on this part of the question.
- 5 This question allowed a greater application of issues to TWP than either question 2 or 3 and it was also the question on which responses tended to be more evaluative in terms of which one(s) would have the most impact on house building. Having said that, once again a large number of the candidates made no attempt to evaluate at all and so prevented from accessing the highest level of the mark scheme. It was the best discriminator on the paper in terms of allowing candidates to show what they are capable of achieving.

There was considerable variance as to the understanding of the nature of ‘demographics’ and ‘social trends’. A significant number of the candidates treated the question as if it had asked ‘what factors are likely to determine the future success of TWP?’ and so a whole raft of issues were raised (eg technology and finance) which were irrelevant. Those candidates who *did* know and who were able to use examples such as age, gender, and changing demands for housing to explain the impact on TWP scored well.

Sometimes assumptions were correct but simplistic, eg ‘an increase in population will increase demand for TWP’s houses and so it will make more profit’. This was indeed a reasonable assumption but stronger candidates pointed out that the extent of this depended on the marketing which TWP and, indeed its competitors, undertook. Detailed knowledge of the likely nature of that marketing was not required on this unit and such a point was well made. The point raised previously about profit needs to be reiterated. ‘Increased profit’ depends on the relationship between costs and revenue and is not an automatic consequence of TWP building more houses or altering the design of them.

## F292 Business Functions

### General Comments

The performance this session was similar in many ways to last January, with some considerable gaps in knowledge on Section A questions but a reasonably good use of context on the Section B questions. This meant that the examination proved to be an excellent discriminator, with questions which allowed stronger candidates to explore more in depth answers.

In Section B, there were no difficulties understanding how HHL operates; neither was there significant evidence of general misunderstandings about information contained in the pre-release or in the questions themselves. As is often the case, some candidates wrote generic answers, despite the profusion of numerical data provided.

Time did seem to be an issue for a minority of candidates who appeared to run out of time on Question 5, although this generally appeared to be the result of overly long, descriptive answers to questions 2(b) and 3.

### Comments on Individual Questions

- 1 (a) More than three quarters of candidates gained both marks for this part of the question, for which there was a vast range of correct answers. Common correct answers related to economies of scale, market share, increased profit and sales revenue. Wrong answers tended to describe the way a business grows, eg 'the business can expand' or 'it can increase output', which were too vague in terms of the benefit to the firm.
- (b) Just about a majority of candidates gave 'payback' and 'average rate of return' (or ARR) as their two correct answers. For those who did not identify a correct response there were a wide variety of wrong answers, such as 'bonuses', 'balance sheet', 'retained profit' and 'break-even'. There persists a sizeable minority of candidates who have no knowledge of investment appraisal and it was surprising that nearly 10% of candidates did not even attempt this part of the question.
- (c) It became clear to the examining team that candidates did not have a good understanding of 'place' in the context of the marketing mix. Many simply referred to the location of the business, in terms of where the product is made, or where to place an advertisement. Some candidates understood that it had something to do with where the product was sold. Few candidates demonstrated good knowledge of the channels of distribution.
- (d) This part of the question on budgets and variance analysis proved to be an excellent discriminator. The vast majority of the candidates were able to calculate the sales revenue variance and it was pleasing to see over a quarter of candidates achieving full marks. However, many candidates got two or more of the answers wrong, demonstrating poor knowledge of the concept of variance analysis.
- (e) Answers to this part of the question, about the advantages of a narrow span of control, were rather disappointing given that this is a topic which is regularly tested. Better answers used the issue of fewer subordinates per manager to justify a reduce workload, easier control/delegation and better communication with subordinates by a manager. Candidates also linked these points to improved motivation for the manager or subordinates.



On the other hand, weaker answers described chains of command rather than spans of control, or wide rather than narrow spans of control. There were also many answers referring to the effect on communication (eg 'faster' or 'better') in the business which were not specific to the narrow span of control, as well as answers which gave spurious responses about communication or control between layers.

- (f) Candidates with a knowledge of benchmarking answered this part of the question well, often achieving full marks. A significant minority of candidates, however, gave general responses about quality, with no knowledge of benchmarking, which could not, therefore, be rewarded.
- 2 (a) It was very pleasing to see, at last, many candidates stating the formula before attempting a calculation. Also, that this formula was, for the vast majority of the candidates, correct. Common mistakes were candidates misreading the change in demand as 180 rather than 108 (so calculating the elasticity as price elastic); putting the percentage change figures into the calculation up-side-down (even after quoting the correct formula) and miscalculating the percentage change in demand as 88% because they deducted the 108 from 900 rather than adding it. Some candidates correctly calculated the elasticity taking into account the churn rate (for which full credit was given).
- (b) For many series' now, this question has consistently been the best answered question by far on Section B. That pattern has been broken in this session. Pricing strategies were attempted, on the whole, in a very generic fashion, without recognising that there should be different prices leading on from the price elasticity of demand (PED) discussion in part 2(a). There was much repetition of the case in terms of the strategies already employed and also confusion about what PED actually means, including some candidates who believed that by increasing price HHL could increase demand. There were also many unsuitable strategies suggested, such as skimming, and many generally naïve discussions about using psychological pricing.

As the question suggested, using HHL's objectives was a successful way in which candidates could achieve contextual analysis. Therefore, some candidates proposed the use of cost-plus pricing to ensure a satisfactory profit margin, or competitive pricing (with HHL's market share at only 5%) to reduce prices in order to work towards the 100,000 customers in 10 years time. Such candidates were easily drawn into evaluation by discussing the difficulties of achieving both objectives at the same time in one pricing policy. Better answers also used their earlier elasticity of demand answer, along with Table 3, to justify price discrimination between HHL's regional markets and again linked this to specific objectives.

- 3 Where candidates discussed changes in the accounts and related this to what specified stakeholders were interested in, there were often some very good answers to this question. Analysis came from a consideration of how specific parts of Table 4 and 5 could be used by specific stakeholders. Evaluation came less easily on this question but the best responses were able to draw on the weaknesses of Tables 4 and 5 and what they were not able to tell specific stakeholders.

Weaker answers failed to specify which stakeholder was being referred to or alternatively talked about a specific stakeholder but then failed to relate their interest to the accounts, thereby producing very generic responses. Another weakness was that some candidates were unable to correctly calculate percentage change. Given the nature of the pre-release, the candidates had had opportunity to practice this technique.

- 4 The vast majority of candidates focused their responses on the ‘causes’ of the turnover problems or ‘how to improve it’ and so did not directly address the set question regarding the ‘future success’. In many cases this appeared to be almost a prepared response from which they were not going to shift. This ultimately led to a rather disappointing performance on this question, with many candidates unable to achieve Level 3.

Candidates who did at least attempt the question set had a tendency to recognise fairly generic costs, such as money spent on recruiting and training, problems with a poor reputation because of the high labour turnover, increased mistakes and difficulties in recruiting new staff. Many candidates also recognised benefits, for example, the introduction of new ideas and skills. Often responses were descriptive of what was happening in the various depots, rather than analysing what the impact of those changes would be and how the business should respond. A useful piece of information for contextual analysis of the effects per depot was often missed out – the customer service targets in Table 7.

The best answers linked the two depots with high labour turnover to difficulties with HHL’s future plans, such as teamworking, and the two low labour turnover depots to helping to improve its objectives for higher profit margins, with an evaluation weighing-up the likelihood of the trends in each being long term.

- 5 This was, surprisingly, the least well answered question on the paper. There were a significant number of candidates who were not au fait with the term ‘lean production’ and either wrote answers about different production methods or talked generally about implementing some of the techniques installed at Ebbsfleet. These usually scored zero marks and accounted for more than one in six of all candidates. Other problems regularly encountered by weaker candidates was mistakenly thinking that the water coolers were manufactured by HHL and ignoring the reference to ‘increase efficiency’ in the question.

Those candidates who were aware of the lean production techniques mentioned in the specification, such as Kaizen, JIT, TQM and cell production, were able to easily access marks and could move quite swiftly into Level 3. It was clearly flagged in the case study that there were considerable issues with stock and this led many candidates to consider implementing JIT and analysing its impact in terms of improvements in teamworking, brought about by the extra space which would be available. Evaluation was typically achieved by judging whether the method was most suitable for the water bottles, as they are supplied from Germany, or the water coolers which are sourced in the UK.

## Summary

There were some sizeable gaps in candidates’ subject knowledge of key terms found in the specification, including ‘place’, ‘investment appraisal’, ‘benchmarking’ and ‘lean production’. This basic knowledge proved to be a significant discriminator in this paper.

The standard of handwriting saw a significant drop, with some scripts almost impossible to read, which clearly limits the examiners ability to award marks.

Answers to Questions 1(e), 2(b) and 4 showed evidence of many candidates not reading the question carefully enough. More time needs to be spent carefully reading the questions.

Questions 1(a), 1(b), 1(d), 2(a) and 3 were answered best and questions 1(f) and 5 were least well answered.

Success in this examination requires a good combination of subject knowledge and contextual application.

## F293 Marketing

### General Comments

Marketing continues to be a popular option and the context of an online publication proved to be accessible for most of the candidates.

Many candidates used the context well in this examination, but there were a few responses which spent too much time explaining the intricacies of the Internet and e-commerce without including the necessary marketing theory.

The key to success on this paper was the ability to fully understand the question and to provide a contextual answer. Sadly, many candidates did not take the time to really understand the questions being asked – despite being able to use the context well. This led to some very 'hit or miss' analysis and too few evaluative answers which actually answered the question.

Candidates must fully read the case study **and** the questions before attempting any answer. Many candidates got confused over the requirements for questions 3 and 4. Those candidates who had not looked at question 4 when writing their answer to question 3 often spent a great deal of their time proposing a marketing mix for extending Men's Stuff, rather than analysing the relationship between Men's Stuff and Life magazine. A short time, at the start of the examination, spent reading and understanding every question is to be expected and should be encouraged.

There was some evidence of time pressure in the examination, although this was generally among those candidates who had tried to accomplish too much on question 6 and then came back to a previous question. There are two points to note based on this:

- First, those candidates who tackle the questions out of order may find that they miss out on some of the discovery provided in earlier questions. A good example of this was on Question 3. Candidates who had tackled this question in the correct order would have already discovered and analysed the relationship between Men's Stuff and Life magazines before tackling Question 6. This often led to a better contextual response to the final question.
- Secondly, it should never be necessary for candidates to write for a disproportionate amount of time on Question 6 and those candidates who place too much emphasis on this question are unlikely to achieve the highest grades. There can be a temptation, if the last question is tackled early, for candidates to spend too long on it because it is such an open question. This is in contrast to the candidate who is forced to prioritise their arguments because they are time restricted. Both candidates have an equal chance of producing an evaluative answer to the question, but the former candidate may not also have the time to complete the rest of the paper to such a high standard.

### Comments on Individual Questions

- 1 Candidates are likely to face a numerical question and on the Marketing unit the techniques can be anticipated and practised in centres. This should allow candidates to apply their knowledge to the specific data in the case. With the use of a calculator such calculations should be a straightforward source of marks.

This question required the candidates to calculate a percentage change between years 1 and 5. Many candidates could calculate the percentage, but did not work out the change. Another common mistake was to get the calculation the wrong way round. When examiners could see the technique and spot the mistake which had been made, then such responses were rewarded for what the candidate had got correct. However, some candidates chose not to show their working and this means that their answer can only be rewarded if the answer is fully correct.

- 2 To answer this question, the candidates really needed to think about the question before answering. The question asked for an analysis of the reason why Joe Kingston was right. Therefore, a candidate who outlined the reason and then analysed that reason was rewarded with full marks.

However, most candidates did not follow this path and chose to give an often lengthy explanation of the link between demand and revenue. This was rewarded at Level 2 but without analysis much of the response was wasted. Candidates obviously spend a great deal of time practising Level 4 questions but Level 3 questions are also an important element of this examination, and this will continue to be the case in future series.

- 3 Many candidates identified how Men's Stuff and Life magazine could be co-dependent, especially in terms of finance for the launch. Better candidates could link this to the product life cycle and the Boston Matrix and use the theory to support their analysis. However, this was the end of the road for most candidates and good evaluation was uncommon. An excellent approach to this question was to focus on whether the extension was **critical** to the **long term** success of Life magazine. Evaluation which focussed on the terms in the question was far more likely to gain high marks.

As previously mentioned, there were a significant number of candidates who gave extension strategies for Men's Stuff magazine.

- 4 On a marketing examination, a marketing mix question should include plenty of context and be very specific to the business in the case study. In this case the context was an extension strategy and, as such, the analysis and evaluation should have been specific to such a strategy. However, many candidates did not pay enough attention to the context and their answers became a journey through the 4 P's which could have been applied to a magazine at any stage of the product life cycle.

An excellent approach to this question was to start with the nature of extending the life of the product and then to analyse and evaluate the aspects of the marketing mix which are key to achieving this objective. Again, candidates needed a good understanding of the question in order to produce a truly evaluative answer.

- 5 This question was generally well answered with most of the candidates able to understand and often relate to the nature of an online publication. Where candidates sometimes struggled was in terms of their understanding of distribution. Some answers became the advantages and disadvantages of using the internet, rather than distribution through the Internet.
- 6 The format for this question is well established and there were obvious attempts at centre preparation. As previously mentioned there was also obvious evidence of candidates answering this question first. This approach led to some poor answers where candidates produced a weak formulaic answer to the most demanding question of the paper, before having a real understanding of the case study.

While there is a need to teach 'technique' in order to answer this type of question, simply mentioning the terms 'depends upon' and 'short term/long term' is not going to be rewarded as Level 4 unless there is some analytical and evaluative justification. Some of the weakest answers spent an inordinate amount of time on this type of formula and not nearly enough on building up analytical and evaluative arguments as to whether KPL should proceed with the launch.

There was also a great deal of time spent outlining a marketing strategy for Life magazine by many candidates, again missing the focus of the question.

Most candidates did have a balance of arguments across marketing and other issues allowing them to achieve marks beyond the bottom of the level. Context was also well used and it was rare to find a generic answer.

### **Preparation Points for Centres**

- Candidates must read the questions thoroughly. Each question is a set of instructions which, if understood and followed, will produce an excellent answer. Candidates who do not understand or follow the instructions are unlikely to access Level 3 or Level 4 marks.
- Candidates too often make a point and do not take it far enough. For example on Question 5 where many candidates correctly identified that distributing an online publication could be done more quickly and easily than a printed publication. Such an approach was insufficient to achieve Level 3. It leaves the reader asking 'so what is the implication for the business?' To take it further and analyse the likely impact on costs, sales and profits to KPL was good Level 3 analysis and this should be encouraged in preparation for this examination.
- At the heart of Level 4 evaluation is actually answering the question. Too many of the candidates provided analysed points to questions 3, 4 and 6 but never actually answered the question. In many cases candidates kept on producing analysis, often moving further away from the central arguments, and just repeated their analysis in a conclusion. This is repetition and does not provide justified evaluation.
- An answer is more coherent and convincing when there is good use of technical marketing language, marketing theory, sentences and paragraphs. The mark scheme for Question 6 is specific about the need for this but every answer will benefit from a more robust approach from candidates. Too many of the candidates produced answers which were one long paragraph, making it very difficult to follow the twists and turns in their arguments. On the other hand, some candidates produced bullet point answers, or paragraphs containing only one basic sentence. This type of answer is unlikely to produce the depth required for analysis and can rarely justify any judgements made.

## F294 Accounting

### General Comments

This question paper proved to be challenging to a good number of candidates and many of the responses showed a problematic level of knowledge in terms of the indicative content of the specification.

It was disappointing to see that opportunities to use the quantitative data from the resource material was regularly missed; examples of how to use the quantitative data will be covered under specific questions.

Candidates must be more aware of reading each question and reacting to clear signposts about the use of tables and other quantitative data.

There was no evidence to suggest that candidates struggled to complete the examination because of a shortage of time.

The mark scheme relating to this paper has a detailed breakdown of the key financial calculations and other materials which a candidate could have used in their responses to the questions.

- 1 A disappointing number of candidates were unable to provide a relevant answer to this part of the question and only a small minority achieved a Level 3 response ( five/six marks).

At the very least, it was hoped that the candidates could demonstrate knowledge of the valuation of stock by simply referring to accounting conventions, eg prudence/conservatism. There was also reference to the auditing process and it was hoped that this would encourage the recall of knowledge that accounts should reflect a true and fair view of a company's financial position.

The relevant resource material centred on Table 1 and, a candidate using this stock valuation information was well set to achieve the highest mark available.

- 2 The examiners encountered an interesting array of answers to this calculation.

The most common answer was a decrease/fall of £165. This response achieved three out of four marks for the own figure rule. Unfortunately, and answer £165 was incorrect.

The correct answer was a decrease/fall of £180 as stock item A was correctly valued at £49 (see the accounting rule in Question 1) and so there was no change in its valuation.

- 3 Good responses used the resource materials to calculate a range of key accounting ratios which enabled these candidates to analyse the variability in financial performance, eg the very low but improving net profit margin, the poor but improving acid test ratio and the return on capital employed.

Unfortunately, many candidates were unable to take their answers beyond a thorough analysis of the financial ratios of BOTL.

The key reason was the general inability to carefully read and then react to the words in the question.

It might be of value to break down the question to assist this process:

'Holly and James might view...' In other words, put yourself in their shoes NOT your shoes. They might be satisfied because they have not been in business for long and, after all, they have survived!

'financial success...' Quantitative evidence, not reference to the media coverage etc. 'since its formation...' A hint here to think about how long BOTL has been trading.

- 4 A good majority of the candidates demonstrated a good understanding of why a business should consider establishing budgets.

Yet again, it is disappointing to report that only a minority of the candidates even attempted to apply their understanding to BOTL and, as a result, the majority were unable to access five/six marks.

Only simple examples were required eg establishing budgets to reverse the decline in gross profit margins, establishing budgets to control overheads and so reduce the wide gap between the gross and net profit margins.

- 5 The vast majority of the candidates could 'trot out' the text book list of sources of finance and, therefore, only secured Level 2 marks.

Analysis required some thought about BOTL's situation. Some of the potential routes to analysis included:

Bank loan, would a bank consider such a substantial loan to a young business? What about the strength/weakness of BOTL's accounts, eg poor net profit margin and liquidity?

Is BOTL's gearing zero simply because it has already been turned down for a loan?

How much is BOTL worth? The answer is not much according to the latest accounts and the loan for both strategies far exceeds BOTL's book value.

Would this deter any investor – be it a venture capitalist, a business angel or a family/friend looking to support a share issue?

To achieve an evaluative response a typical route chosen by the candidates was to recommend two different sources of finance for the two requirements.

An important point to mention is that it was evident that the very best candidates spent time in reading all the questions before considering their responses. Question 5 was a good example of this. The better candidates considered Question 6 and the possibility of having rucksacks made in Vietnam consequently; this decision has a bearing on the funding of the sewing machines and concluded that it was more important to gain funding for the promotional strategy as the need for sewing machines might become redundant.

Indeed, a few candidates went on to conclude that some of the finances for the promotional strategy might be funded by the disposal of the sewing machines.

- 6 Good responses explored the accounting issues through a reworking of BOTL's gross profit margin and net profit margin as a result of the 40% savings resulting from the proposal (run on) Using these figures illustrated a significant increase in GPM and NPM (assuming that overheads did not increase). (run on)

It was very disappointing to note how many candidates seemed incapable of attempting such calculations.

Unfortunately, an inability to utilise these numbers seriously restricted a candidate's mark irrespective of how good the remainder of their response.

As the synoptic question, it was expected that the candidates would also explore other issues relating to marketing, human resources and operations management.

In addition, the best responses also evaluated the impact of external influences, corporate social responsibility, attitude to business risk and objectives. (run on)

However, exploration of these issues was no substitute for a thorough analysis of the accounting issues.

Ultimately, a high mark was achievable whether a candidate's decision was to recommend or not recommend having all BOTL's products manufactured in Vietnam.

High marks were available for those candidates who recommended an alternative strategy, ie continue to manufacture some rucksacks in the UK but also have some manufactured in Vietnam in order to reduce business risk, to assess the quality, reliability and impact of other factors. This would give BOTL's home workers an opportunity to rise to the challenge, improve their quality, reliability and reduce costs.

Either point of view could have been supported by the resource materials. The important factor was that a candidate made a final recommendation based on a balanced analysis of the resource materials.



## F295 People in Organisations

As has been stated in previous reports, there were no obvious signs of any time issues, with candidates being able to write at length. However, yet again, there is a need to mention the requirement for the candidates to read the actual questions with more care. Similarly, there is also still a requirement for the candidates to be reminded to read the resource material with considerable care in order to answer in context. The resource material, again, offered the candidates many opportunities to utilise the information in order to help frame their answers.

The questions allowed the candidates to apply the business theory and terminology imparted in order to justify their views. It was pleasing to note that there are now more candidates who are applying the theory and appropriate terminology to good effect. Although was still disappointing to read instances where a minority of candidates do not do this, to their detriment. Quoting appropriate and accurate theory is an obvious way to access higher marks. Those who did use theory in the context of the question were well rewarded.

The ability to offer evaluative comments through justified judgements remains an issue for too many candidates. Weighing the evidence, suggesting which point was of most significance to Furlongs, were both obvious routes into the higher order marks which are available. This was the case particularly on Question 3 and on Question 5. Many opportunities to offer evaluative comments were lost, despite the questions clearly asking the candidates to do so. It is also imperative (for Question 6) that a balanced view is offered in order to achieve evaluative marks.

Too many, although slightly fewer, candidates offered answers which made reference to the same issues, irrespective of the question being asked. Candidates at A2 level ought to be discerning in the selection of the material when responding any particular answer. Although motivation is an important concept, it is not the panacea for all ills.

There appears to be a growing tendency for some candidates to refer to employees and/or customers as being 'happy'. This is not a business concept of which examiners are familiar. Offering comments as to the fact that employees would be more content, less fractious, satisfied, co-operative et al would be more suitable for an A2 answer.

The standard of presentation continues to be varied, with some scripts testing the ability of the examiners in their deciphering skills. Poor handwriting may detract from the ability of the examiner to follow what candidates are writing. . The utilisation of paragraphs to enhance the readability of answers remains a valuable asset.

- 1 As stated in the last report, a pleasing number (over half) of the candidates gained full marks on this question. It is also pleasing to report again, that a large majority of the answers were well presented with clear signs of the calculations undertaken. It remains a worthwhile approach to always state the formula used as correct formulae can and will be rewarded if the actual figures are incorrect.

There was a small minority of the candidates who were unable to put the formula the right way round, or to divide 20 by 18 correctly, which is of concern. I do think it is reasonable for an A2 student to realise that the answer is a percentage and that consequently they ought to use the % sign in order to signify this outcome.

- 2 Although around 80% of the candidates gained at least four marks on this question, it was surprising to note how few of the answers used the actual figures which had been calculated in Question 1. This provided a useful insight into this particular type of business where one would expect labour turnover to be high. The case also offered additional information with regards the fact that several of the employees of Furlongs are students. Only a few candidates failed to read the question with sufficient care and consequently avoided the mistake of talking about non-human resources issues.

Many candidates missed the fact that a high turnover would necessitate a constant recruitment programme. To ensure that marks for analysis were achieved, the candidates needed to offer implications for Furlongs and not just for the employees.

- 3 This question discriminated very well but not in the way which had anticipated. Too many of the candidates, around 15%, failed to achieve any marks, simply because at no stage in the answer provided did the candidate offer any evidence that they knew what employee participation actually was. At A2 it is not unreasonable to expect candidates to be familiar with such concepts. Concepts which are clearly stated within the specification. References to an involvement in the decision making process, quality circles, work councils (although Furlongs is only a small business), employees as shareholders (even though Furlongs is a partnership), collective bargaining and legal participation (redundancy) were the main examples offered, all of which were accepted.

However, the candidates who did know what employee participation was answered the question well and were subsequently rewarded. The question asked for the benefits for Furlongs, a point missed by some of the candidates.

The number of candidates achieving marks for evaluative comments remains too low. The ability to evaluate at A2 ought to be within the grasp of many of the candidates, especially if the top grades are expected. A comment suggesting which benefit was the most significant for Furlongs, justified in the context of the case, was an obvious route into accessing the top marks.

- 4 The majority of the candidates did well on this question in terms of offering appropriate analysis. There was, in the main, a clear understanding of health and safety issues. The majority of the candidates were also able to utilise their knowledge in the context of Furlongs. A detailed knowledge of health and safety legislation was not required or expected; however, an understanding of how complying with any health and safety legislation was expected.

Some of the candidates failed to answer the actual question and consequently could not access the marks available. Those who concentrated on the 'prevention' aspect of compliance in the context of Furlongs, scored highly. Some of the answers were generic and failed to use the context of the case, whether in terms of working with hot liquids or handling food/glasses. Fewer accidents would mean that Furlongs would not be faced with absence due to injury and consequently not have to hire additional staff at a cost. This was an obvious route into appropriate analysis.

- 5 The majority of the candidates knew about training and, in particular, on-the-job training.

Many of the candidates were also able to offer appropriate analysis in relation to Furlongs; however, too many of them failed to offer any evaluative comments as to whether on-the-job training was appropriate for Furlongs. There were several points raised within the case which could and should have been used to help the candidates reach a judgement.

Some of the better answers realised that many of the employees were students and, consequently, would prefer on-the-job and that, therefore, this would save Furlongs in terms of costs and time. This was of significant when coupled with the high turnover figures and, therefore, rendered off-the-job far too expensive. Due to the lack of evaluative comments, many candidates only achieved eight marks on this question.

- 6 This question discriminated well, with candidates scoring a wide range of marks. Candidates showed a better understanding as to how such a question might be answered. The majority of the candidates are now remembering to consider human resources management and 'other issues', with finance, once again, appearing to be the most popular. The question, as always, asked the candidates to make a decision – in this instance whether Furlongs should remain open on a Sunday. Too many of the answers concentrated on what the business should do in order to remain open and, consequently, failed to access some of the higher marks.

There was no preconceived 'right' answer to this question and, consequently, it was of no consequence as to whether the candidates thought Furlongs should, or should not, remain open on Sundays. What was of importance was how the candidate argued in favour or not. A balanced answer considering the information available from within the case was more likely to be well rewarded.

Many candidates attempted to suggest that the employees were unwilling to work on Sundays, particularly students, without offering the implications of this for Furlongs and, in particular, how it may affect whether Sunday was a viable day on which to open.

Many candidates ignored or failed to refer to the fact that Furlongs is located in a tourist area and, therefore, opening on Sundays might well be a viable option as tourists are likely be in need of refreshment at some juncture. Similarly, few candidates developed the issues as to whether it would be financially viable with specific reference to the contribution to overheads.

Nevertheless, more candidates were able to access the evaluative marks on this question, which was most encouraging.

## F296 Business Production

### General

Much as in previous examination series, the candidates found the case study material accessible and seemed to enjoy writing, and speculating about, the context. Set in a somewhat rudimentary secondary sector leather business there were enough problems, explicit or implicit, for the candidates to furnish their answers with contextual depth. The best candidates really did read into the case study many of the implications and gave some outstanding, evaluative answers. As ever, the weaker candidates often knew their 'production' but could not apply it to the case study and did not pick up on some of the more subtle nuances of life at De Silva's Leather.

There were very few instances of running short of time and most candidates were able to give full answers, or at least fill the space. For a number of the candidates specification coverage was a clear issue – particularly with reference to the six mark questions – which exposed a total lack of knowledge specific to those particular concepts. For them, this was six marks simply lost.

Candidates still struggled to evaluate in context but there was a general feeling that this is improving. Evaluation, if 'thin', was more present than in the past and centres need to build on this by focusing on adding weight to the depth of evaluation. A brief summary/repetition at the end is not sufficient – there needs to be a clear weighing up of factors/considerations which 'steps back' from the problem and, in the best cases, prioritises issues.

- 1 About a third of the candidates simply had no clue as to what are social costs. Zero was the most common mark given. A guess along the lines of 'social' meaning 'people's welfare' or reputation of the firm was very common. Very few candidates really summarised it as private costs plus negative externalities (nor was this necessary) but they did look at issues such as pollution and congestion (the two favourites) and explain how these came about and with some analysis of their impact on the community. Once candidates actually knew what a social cost was, they then tended to relatively easily access Level 3. Advice – learn social costs, even if it is 'hidden' amongst more 'numerical' costs on the specification.
- 2 More than half of candidates got both parts of this question correct – very few, however, achieved full marks on the break-even calculation and then did not get the margin of safety. However, this still left a high number of candidates who did not get full marks on what was a straight forward, routine, calculation. The topic of break-even is central to production and it was with surprise that so many candidates did not successfully manipulate the numbers, even when they had stated the break-even formula correctly.
- 3 Candidates clearly found this 'job to flow' question very straight forward in the sense that most launched into a series of advantages and disadvantages regarding the two methods. Many could contextualise it – there were two or three very obvious contextual 'hooks' – and explain why, at De Silva's, switching would or would not be an issue. Contextual analysis was good and it was very common to end with an evaluative 'summary' which just moved the candidate up into Level 4 – but by the smallest of margins ('benefit of the doubt' evaluation, but no more). Few candidates really adopted an evaluative approach throughout or weighed up their well analysed issues in a conclusion with more weight and sophistication. Contextual evaluation continues to be the 'holy grail' to which the candidates must work towards mastering. Overall – there were some good answers to this question.

- 4 Much like Question 1, value analysis was a concept which candidates either knew or they did not. Again, zero was the most common score and those candidates who achieved anything, ie they knew what value analysis was, tended to move on up through the levels rapidly. Those who did not know made the obvious guess that value analysis is 'analysing value'! They then proceeded to discuss 'value' but with no concept of what a value analysis study actually is. One mark was given to candidates who hit upon the idea that it was a cost cutting exercise (value analysis) has been interpreted that way by some businesses) but it went no further. Again, candidates must be implored to learn the 'little', less 'obvious' topics on the specification.
- 5 Clearly the candidates found this question less accessible than the methods of production (Question 3). This was a very wide ranging question – indeed, the candidates could advocate stock control or virtually anything else – had many struggling to make a recommendation. There were a lot of stock 'kaizen, jidoka, lean production, JIT' answers which utterly lacked context. Context was everything on this question. Given the workforce, the chaotic nature of production, the lack of clear leadership and so on, slick, modern, often IT based solutions were simply not in context. Some of the better answers focused on simple approaches, eg confront the staff directly and set simple 'standards'. Throwing the textbook at the problem did not enable any really meaningful rewardable analysis or evaluation. That said, there were some outstanding answers which did understand the nature of the business and gave well argued solutions.
- 6 Candidates are very obviously getting used to the principle behind this question and are there were more better structured answers than in previous examination series. Answers tend to be contextual, balanced, well reasoned and usually concluded. What they failed to do well, however, was to **in depth**. The best answers took an evaluative approach throughout but Level 4 marks were just as easily scored in a concluding paragraph, as long as it was a conclusion and not a repetition of issues or a superficial 'the pros outweigh the cons'. A low Level 4 (13 or 14) mark was the most common achievement on this question.

## F297 Strategic Management

Across the five questions this paper proved to be a very effective discriminator. No single question proved to be a universal undoing, nor did one offer the highest mark on all scripts. Most candidates were able to access the upper reaches of the mark scheme on at least one question, although few were able to do so consistently.

The case context seemed to be one which the candidates were able to grasp with very few making significant conceptual errors. It was pleasing that, although the business, FHL, operates in an industrial market, this did not lead to inappropriate substitution of 'customers' and 'consumers'. Further, it was good that most candidates recognised that FHL operates in the own label market rather than the branded end. Most candidates recognised that FHL was improving in that the losses recorded are declining. It was a pity that few candidates identified the reason; gross margins remaining the same, yet a significant reduction of indirect costs, notably marketing and product development. In a competitive, oligopolistic market, one might reasonably question the long term sense of cutting these costs. However, given the major decision maker is only at FHL for another year, this 'slash and burn' approach may not actually bother her!

OCR has recently published (see [www.ocr.org](http://www.ocr.org)) the accepted format for financial accounts to be used in this specification. This also included the accepted formula for financial ratios. Hence, there is now, for example, a single OCR definition of 'gearing'. Consequently, the examining team is able to have a sheet showing the values for all of the financial ratios within the specification. To gain marks for analysis, the value presented in the script has to tally with that expected. This means that if a candidate offers a value which is not expected, then the mark awarded will be, at best Level 2, for showing application of the concept. As has been suggested before, the advice to candidates when using financial ratios in answers is a three stage approach – formula, data and outcome. Further, and has been reported many times before, the appropriate use of financial ratios and data is a very efficient way of contextualising an answer and so offers an efficient route to the upper end of the mark range.

Many of the good aspects seen in June 2012 were again apparent this session; there were hardly any instances of 'no response' and answers being of approximately the same length. There was no evidence of undue time pressures. Hand writing, script presentation and grammar continue to disappoint. In extreme cases this can obstruct the assessment of the script.

It was positive that most candidates answered the actual question set, and in doing just that gained high marks. Occasionally, some candidates were guilty of skim reading the questions and so offered answers of tangential value. For example, Question 1(b) asked about the advantages and disadvantages to FHL. Hence, a candidate writing at length about the advantages and disadvantages to employees was not actually answering the question set. However, if it was thought that poor employee morale might lead to higher absenteeism, and so lower output for FHL, then marks could be awarded. A minority of candidates discussed the Sleep Shack order despite this not forming any part of any question.

- 1 (a) This part of the question proved to be an excellent discriminator, with marks ranging from zero to the maximum possible. Very few candidates failed to offer an answer of any kind. The majority of the answers successfully calculated the trend and CV for 2012 Quarter 3. More marks were then available for plotting the calculated trend and extrapolating the trend line to arrive at a trend figure for 2013 Quarter 3. Regrettably, many candidates stopped at this point, seemingly confusing the forecast trend value with a forecast sales value. The application of the appropriate average CV would have lead to the remaining few marks being awarded.

**(b)** Answers to this part of the question could be grouped into three main types. First, those which had no coherent idea what an 'annualised contract' is. Hence, these candidates simply wrote about having a contract of employment. Such answers scored very poorly. Second, answers which started with a workable definition of an annualised contract but then failed to recognise that the hours worked in any week would vary according to the need for labour. Hence, there was still discussion of having too many workers when demand is low, and needing to bring in agency staff when demand is high. Happily, the third type knew what an annualised contract is and could accurately apply it to the context. These better answers often engaged in some numerate analysis, frequently contrasting this with the Working Time Directive. Similarly, those candidates who calculated the wage saving and then developed the possible consequences scored better than those who simply repeated the 60% mentioned in the case.

**2** Given the considerable steer in the case study a question on taxation should have come as no surprise. For most it did not. What did seem to surprise, however, was that the question focused on 'direct' tax. Far too many answers failed to differentiate between different types of tax and so often wrote at length, and exclusively, about VAT. If the question set is not answered then candidates are ill placed to access marks. Likewise, discussion about 'import taxes' was vague and marginal.

Better answers restricted themselves to income and/or corporation tax. These answers scored well, particularly when it was made clear how FHL should respond to this external change. Many candidates successfully used the data about FHL's products' income elasticity of demand to argue that the product mix may have to focus on the one inferior product, bagged toffee. Similarly, many candidates argued for a greater focus on export markets to avoid this UK change. Consequently, many candidates scored well on Level 3, analysis. However, fewer candidates were able to evaluate the response beyond a bland comment about the short run v the long run, or a simple statement that 'it depends on how big the change is'. This statement is an interesting and valid route into Level 4 but is, of itself, not sufficient. What is expected is some development to indicate how/why the size of the change is material. Few considered that tax changes tend to be long term (in contrast to exchange rate movements) and that, because they are announced a long time before they actually take effect, the firm would have time to plan and implement its strategic response. Similarly, few candidates suggested that how FHL response might depend on whether the increase is via a change in the tax rate or in the income threshold. Given that FHL sells to the 'own label' market rather than the branded market it is entirely possible that an increase in the top rate of income tax might have no discernible impact on FHL's sales, thereby meaning that there is no need to make significant adjustment.

A common confusion surrounded the concept of corporation tax. For many candidates it was discussed as would be any other cost, eg raw materials, one of many costs in the profit and loss account which can be subject to managerial control. Further, a lack of precision in discussing profit – gross, before tax and interest, or net profit – tended to detract from the quality of many answers. Thus, an increase in corporation tax would impact on gross profit differently to its impact on net profit.

**3** A lack of use of the case data explained the reason why so many answers to this question received low to average marks on this question. Too often there was little to link the various approaches to FHL. For example, answers frequently suggested training, TQM, enrichment and so on, but in a way which could apply to Amazon or Starbucks as much as they could to FHL.

Some simple analysis of Table 2 could provide evidence that the variation in team performance could not be either a materials or method problem (if Team 1 can achieve 100% internal quality, then the machinery must be adequate and the method employed in manufacture must be similarly appropriate). The same reasoning could be applied to the other effectiveness indicators. If this argument was accepted then the issue must be people based, either worker or supervisory/managerial. Consequently, throwing money at the problem might raise the effectiveness of an underperforming team but do little, other than add to costs, for a top performing team. The lack of finesse and sensitivity in many answers disappointed. It was, however, pleasing that many candidates recognised that whilst money may be a way to change motivation FHL, as a loss making business in a competitive industry with over capacity, could ill afford this route. A small number of candidates evaluated the situation in arguing that no matter what the shop floor workers do their effectiveness will be low until such time as management obtained more orders. Therefore, the way to improve employee effectiveness was straight forward; either gain more sales or reduce the size of the workforce.

- 4 It is good that the fact that the final question has a higher tariff than the preceding ones does not cause candidates to write notably longer answers.

The additional information in the stem of the question did not seem to cause undue anxiety amongst candidates. Indeed, few of them made mention of the £1 bid. The majority simply applied the concept of the stakeholders response to the possible purchase. Consequently, very many answers plateaued in Level 2, despite the often lengthy description of stakeholders. In situations such as this candidates are best advised to choose a small number of stakeholders, perhaps only two, and fully develop their answer in depth. An answer which considered several (shareholders, employees, local community, government, customers, suppliers and so on) did not inevitably score highly on a skills based marking scheme. Although a long list of stakeholders may be comforting to a candidate in an examination the fact is that depth is better than width.

The better answers sought to analyse the case material. For example, it was possible to readily determine a book value for a share and so to contrast this with HCC's offer price. Such an answer trumped one which simply stated 'shareholders would lose out'. There was some evidence of confusion about the ownership, with many candidates determined that Cullum would still have an ownership role in the business after a sale. Other routes to analysis included the calculation of days creditors, average wages and so on.

Evaluation was seen in considering HCC's motives for the purchase. This was good but, again, not sufficient. Simply stating that the employees' benefit would depend on what HCC intends to do with FHL is not enough. For this to be evaluative there needs to be amplification, and possible contrasting, of the two options; buy and close or buy and run. The examiner can only mark what is committed to paper and cannot be reasonably expected to fill in the argument on behalf of the candidate. Hence, whilst there are various generic frameworks for evaluation (short run v long run), winners v losers, it depends on, how big/fast, etc.) these are just that; frameworks. Such approaches provide a skeleton; it is still for the candidate to present the flesh of the reasoned argument.



**OCR (Oxford Cambridge and RSA Examinations)**  
**1 Hills Road**  
**Cambridge**  
**CB1 2EU**

**OCR Customer Contact Centre**

**Education and Learning**

Telephone: 01223 553998

Facsimile: 01223 552627

Email: [general.qualifications@ocr.org.uk](mailto:general.qualifications@ocr.org.uk)

**[www.ocr.org.uk](http://www.ocr.org.uk)**

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**Head office**  
**Telephone: 01223 552552**  
**Facsimile: 01223 552553**

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