

Business Studies

General Certificate of Secondary Education **J253**

Examiners' Reports

June 2011

J253/R/11

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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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Chief Examiner's Report

Introduction to the Report to Centres

This was the first time that GCSE certification was available for J253 candidates. It was pleasing to see a slight increase in the overall A-C grades awarded when compared to the two legacy specifications, 1951 and 1952. Centres and candidates should be congratulated on the results of their hard work in coming to terms with the new assessments.

Performance on the controlled assessment was, again, an improvement on the previous session with candidates being rather better prepared for the assessment. Knowledge and understanding (AO1) was generally strong across a wide range of candidates. Higher ability candidates were then able to apply their knowledge to the *detail* of the scenario and analyse their data to reach clearly justified recommendations. It is important that candidates note the detail of the scenario as this will provide the platform for achieving higher AO2 and AO3 marks.

The shorter written paper, unit A292, saw good performance from those candidates who were able to show their knowledge of the specification content, the main element in this assessment. Centres and candidates should recognise the key assessment objective in each of the three assessments:

- A291 – AO2
- A292 – AO1
- A293 – AO3

The case study paper, unit A293, was taken by the vast majority of the candidates who were aggregating their marks this session. Performance was very good, with candidates being well prepared in relation to the pre-released material.

Analysis within the paper did show signs of improvement, though, at times, candidates at the higher levels failed to weigh up the evidence available in order to make a fully justified recommendation. The Principal Examiner's report highlights some thinking skills activities which may assist in this aspect. Teachers who may not be fully aware of these techniques may wish to attend INSET sessions this autumn for clarification and practical demonstrations of some of the methods mentioned in the report.

A291 Marketing and Enterprise

Introduction

There was a further increase in candidate numbers for this session, with a number of centres taking advantage of the opportunity to re-enter their candidates.

Candidate performance overall was again higher than in previous series, with preparation being rather more focussed, together with a better understanding of the requirements of the different Assessment Objectives (AOs). Candidates are making better use of the preparation time, with charts, tables, graphs, etc being prepared in order to simply 'drop into' their investigations in the close control stage. For those centres where candidates are handwriting their work, computer drawn graphs can still be used and simply pasted into the relevant part of the investigation.

The scenarios for this session featured two young, inexperienced entrepreneurs wanting to set up a new small business. For Tom it was as a children's party organiser and for Amy it was a unisex hair and beauty salon. They would both be in a competitive market, though Amy would need to consider this aspect rather more than Tom.

Amy and Tom are 21 year old twins. The age of Tom became relevant in Investigation 3 when candidates were asked to consider the help which is available for those wishing to set up their own business.

Overall marking was rather more accurate than in previous series, though where adjustments had to be made it was AOs 2 and 3 which caused the most difference between centre marking and the view of the moderation team.

Administration by centres was, however, a little disappointing, with a greater number of clerical errors than in the past. Care should be taken when adding up the various component marks and transposing the total to other documentation.

Application of the Assessment Objectives

AO1

Here candidates are required to show their knowledge *and understanding* of the relevant specification content.

For Investigation 1 in both cases this required knowledge and understanding of market research techniques. This was completed well in many cases with candidates looking at a variety of techniques which a business might use. Centres should note that AO1 can be a generic look at the specification area in question, though it should always be thorough and **not** just consider the options which, say, Amy or Tom should use.

In Investigation 2 candidates were asked to show knowledge and understanding of either pricing or promotional strategies. At times this was excellent, with candidates clearly understanding the material. At the other end of the scale, candidates simply listed the various pricing strategies which a business might use. Whilst this may show some knowledge, there is little understanding to credit. In all cases, candidates should explain the features of each pricing or promotional strategy giving examples of how they might be used.

For both scenarios, Investigation 3 required knowledge and understanding of the product mix. Whilst this posed no problems for the majority of candidates, there was some evidence of confusion with the marketing mix, with candidates being drawn into writing about the 4Ps.

In Amy's case, Investigation 3 went on to look at the various methods of distribution, asking candidates to examine whether a shop/salon is the best way for her to reach her customers. Many candidates rightly considered the opportunity of going mobile with her services, and some candidates developed the point further by looking at the possibility of using the Internet. Whilst the Internet cannot be used for the services part of the business, the fair trade beauty products which Amy wished to sell could be distributed in this way. A minority of candidates confused distribution with location and wrote at length on the exact location on the high street which would suit Amy.

For Tom, Investigation 3 required knowledge and understanding of the help available to entrepreneurs. In many cases this was done very well, with candidates looking at both the national and local support and advice which was available.

AO2

AO2, in terms of marks available, is the most important element within the controlled assessment. Centres and candidates should ensure that this is given careful consideration when planning and completing the work.

Application at the highest level should consider three aspects:

- the local area;
- the business;
- the circumstances of those involved.

Most candidates made some attempt at applying knowledge to the business and the local area. This was at times weak, with a simple mention of other hairdressers or party organisers, or some description of the town/village in which they were located. Candidates should always look to explain *why* a particular point is relevant to the investigation. For example, if there are a large number of potential competitors locally, *why* will this impact on pricing or promotional strategies? In a number of cases, candidates would make a valid point without explaining why it was important within the scenario which they had been given.

Within the context of the business, candidates should always be realistic. At times there were rather extreme ideas being put forward, especially on promotion which bore no relevance to a small children's party business. Even when asked to look at future promotion, few candidates suggested that there should be *less* spent on this activity (as is often the case), arguing that TV, radio, cinema, billboards amongst others should be the order of the day. It was noticeable that those candidates who had the opportunity to speak to a local hairdresser or party organiser had a much more balanced view on how business might handle marketing issues.

The circumstances of both Amy and Tom would have a major impact on the decisions they would have to make. This was at times ignored by candidates and was weakly developed by others. As stated above, they are young, inexperienced and wanting to set up a new, small business. There may well be a lack of capital (candidates are told that Tom has less money saved than Amy and is not seen as being well organised), and as they are new to business, the skill levels will be low.

In Investigation 1 it may be the case that they do not have the funds to use all the methods of market research and a new, small business would have to look carefully at the pricing or promotional strategy it used. Funding could also impact on the decision for Amy to go mobile in Investigation 3 or sell through a shop/salon. Would the Internet be a better choice for Amy's fair trade products *in her circumstances*? Would Amy have the skills to offer a full range of services? Which of these is she likely to be able to develop when she first opens?

For Tom, his age (21) will affect the help he may receive in Investigation 3. Candidates should look to investigate how age will impact on the assistance given to young entrepreneurs, and examine whether this will help or hinder his progress. Tom would face the same problems as Amy in potentially being short of capital, and his skill level may not extend to providing a full range of party activities or catering services.

Where candidates did make this link between the circumstances of Amy and Tom and the situation which they were faced, then marks at the highest level were well justified.

AO3

Here candidates are required to analyse and interpret data, making recommendations which are justified by the analysis.

In Investigation 1 candidates are **not** required to complete any other primary research. The data provided should be analysed and, using their business knowledge, enable a suitable recommendation based on their analysis of the data in the question to be made. This was completed well by many candidates, at times *too* well bearing in mind there are only two marks which are available for AO3 in Investigation 1.

For Investigations 2 and 3 candidates should undertake their own primary and secondary research, in order to support their work. Research was generally well completed, though at times the focus of the questions could have been rather better. For example, questions on pricing largely centred on what price consumers would pay for services. Whilst this may provide some useful information, questions on whether consumers compared prices and whether they would use a new hairdresser charging lower prices would have given more support for any recommendations which may follow. For Tom, questions on where consumers looked if they wanted a party organiser may well have helped with a choice on advertising media, and questions which prioritised party requirements would have helped focus on the fact that Tom would only be able to provide a more limited service when starting his business.

With good primary data (in particular giving the local viewpoint), analysis should include the use of figures and percentages to add precision to the work. For the higher marks on AO3, candidates must use the detail, including figures, from that analysis to help justify the ideas which they are putting forward. This element of the assessment differentiates candidates very well, with weaker candidates often ignoring what analysis they have completed and putting forward a personalised view. There was increasing evidence that candidates were using data, both primary and secondary, very well and coming to a justified recommendation which clearly matched the circumstances in the scenario.

A292 Business and People

Introduction

As with the January series, candidates displayed a good knowledge of the specification content and there was a sound understanding of the various principles and business terminology. Whilst the standard of the scripts did vary, the paper appeared to be more accessible than the January paper as illustrated by a small increase in the mean mark.

As expected, only the more able candidates could provide good responses to questions 1 f(ii), and f(iii). These questions were targeted at the higher end and differentiated as such.

The vast majority of candidates did make an appropriate attempt to answer all questions within the given time period.

Comments on individual questions

Question One

- (a) (i) This part of the question was well answered. About three quarters of the candidates were able to obtain the mark on offer by accurately selecting 'shares are usually sold to family and friends' as a feature of a private limited company.
- (ii) This part of the question was well answered. Many candidates obtained both of the marks on offer by referencing 'can obtain more capital for investment by selling shares on the stock exchange'. Some candidates incorrectly referenced 'revenue' as a gain from selling shares on the stock market; therefore, only receiving one mark. Overall about three quarters of the candidates obtained at least one mark on this part of the question.
- (iii) This part of the question was satisfactorily answered. Of the opening three questions this caused the most difficulty. Many candidates incorrectly referenced 'because businesses do not want to publish accounts'. Correct responses included 'anyone can buy shares from the stock market which means the business can be taken over, therefore, you lose control'.
- (b) This part of the question was generally well answered. The majority of candidates obtained at least one of the two marks on offer. Common correct responses included 'businesses pay tax' and 'businesses create jobs'. Some candidates did appear to not understand the question.
- (c) This part of the question was generally well answered. Over half of the candidates obtained at least three of the six marks on offer. Common correct answers included 'The use of video conferencing has made it easier for employees worldwide to communicate face to face without having to fly to meetings which saves financial and time related costs. The Internet has a major advantage of finding cheaper supplies and it provides easy 'shopping' access for potential customers. However, the Internet has led to a sharp increase in competition as customers can move their custom easily. Also, the connection may falter which means using video conferencing may not always be effective, especially if you cannot hear what people are saying'
- (d) This part of the question was generally well answered. Approximately three quarters of the candidates obtained three or more of the five marks on offer. Most candidates were able to select appropriate information from the national minimum wage and the Employment

Rights Act information and apply this information to 'Terry'. Correct responses included 'Terry is older than 21, therefore, the minimum wage legislation is being broken, as his wage should be at least £5.93 and not the £5.59 which is being proposed. This is 34p below the national minimum wage. As for the Employment Rights Act, he has been told that he MUST work seven extra hours which is against his contract and under this law any changes to hours must be agreed between employers and employees. Also, Terry has been there three years so his contract cannot be changed without discussion'.

- (e) This part of the question was generally well answered with approximately two thirds of the candidates obtaining over four or more of the six marks on offer. Most candidates were able to explain the meaning of each of the methods of motivating production workers – namely 'bonus scheme', 'monthly award', and introducing 'job rotation'.

Correct responses included 'I think a bonus system would be best as this is something all workers can obtain it and be involved in and work together to achieve. However, poor workers may hinder the good workers but if the bonus is at stake then the good workers may help the bad workers, hence, higher production. The award scheme would reward only one worker per month which may decrease the motivation of the workers who did not receive the award. Job rotation would allow the workers to do different things, but they might not like the other jobs anymore than their current job. On this basis I think a bonus would be best because all staff can benefit, whereas with award scheme only one person can receive it, and alleviating boredom by job rotation may only have a minimum impact on production'.

- (f) (i) This part of the question was generally very well answered. Over four fifths of candidates obtained the one mark on offer by correctly selecting 'horizontal integration' when describing a merger between two competitors.
- (ii) This part of the question was targeted at grades a*/a, and it was not surprising, therefore, that it was poorly answered by the majority of the cohort. Few candidates achieved more than two marks. The main incorrect response centred on candidates providing answers which explained the advantages of mergers. This was not the requirement of the question.

Candidates who achieved marks usually based their answer on the 'costs of a takeover' in comparison with a merger. Rare full mark answers included 'A takeover will mean Revolution Ltd would have to find a large amount of money which it might not have and thus have to get a bank loan. Therefore, from a financial point of view a merger is more beneficial than a takeover, ie no need to take out a loan/pay interest. Also, by merging, existing customers of both companies stay with the company, whereas if a takeover occurs, customers of Micros Ltd may go elsewhere as they believe Micros Ltd does not exist anymore'.

- (iii) This part of the question was generally poorly answered. As with the previous question candidates found it difficult in answer. There were many candidates who misunderstood what the question required. Those who answered correctly highlighted 'a narrow span of control' and 'increased chance of promotion'.

Question Two

- (a) (i) This part of the question was very well answered. Over four fifths of the candidates obtained each of the two marks on offer by demonstrating an understanding of the secondary sector and the tertiary sector. Correct responses included 'S&F is part of both sectors because it makes and designs clothing which is part of the secondary sector, and sells clothing which is part of the tertiary sector'.

- (ii) This part of the question was generally well answered. Over two thirds of the candidates obtained at least one of the two marks on offer by explaining the meaning of the phrase 'sleeping partner'. Correct responses included 'a sleeping partner is not involved in the day to day running, but has supplied funds to the business'.
- (b) (i) This part of the question was well answered. Over two thirds of the candidates obtained the mark on offer. Correct responses included 'how profits will be split' and 'the responsibilities of each of the partners'.
- (ii) This part of the question was very well answered. Over three quarters of the candidates obtained at least one of the two marks on offer for explaining one advantage of operating a business as a partnership. Correct responses included 'With a sole trader there is only one person thus there would be a limited amount of money in the business whereas with a partnership there is likely to be more capital in the business as there will be at least two owners'.
- (c) (i) This part of the question was very well answered. Over three quarters of the candidates obtained at least one of the two marks on offer by explaining a relevant location factor. Correct responses included 'Wealth of area as it is selling designer clothes so there would be no point in locating in a poor area as it would make few sales'.
- (ii) This part of the question was very well answered. Over three quarters of the candidates obtained at least one of the two marks on offer by explaining one advantage to the local community of a business opening in its area. Correct responses included 'The opening of a new shop will increase jobs as sales people will be required which helps to lower the unemployment rate in the local community'.
- (d) (i) This part of the question was aimed at the lower ability range. As a consequence nearly all of the candidates obtained at least one mark and about four fifths of the cohort obtained both of the marks on offer. Candidates, in the main, correctly selected personal qualities from Fig. 2 such as 'hard working' and 'able to work under pressure'. Some candidates provided general managerial qualities such as 'good delegator' and good communicator'. Marks were awarded appropriately.
- (ii) This part of the question was generally well answered. Candidates displayed a good understanding of the benefits and drawbacks of internal recruitment. Responses were varied and there tended to be an equal spread in terms of marks achieved.

Full mark answers included 'Although with internal recruitment you know the existing workers' strengths and weaknesses, and you would not have to pay external recruitment costs, I think it is silly if S&F is considering only recruiting a manager from within the business. You will be limiting the amount of workers you will be recruiting from and, therefore, you may be losing the chance of recruiting an excellent manager who may bring new and better ideas. Therefore, I think S&F should recruit externally to avoid missing out on the wider range of candidates'
- (e) (i) This part of the question was generally well answered. Over five sixths of the cohort could obtain at least one of the two marks on offer and only a slightly smaller proportion obtained both marks for correctly calculating that each of the ten partners would receive £10 000 as a share of company profits.
- (ii) This part of the question was very well answered. Nearly all of the candidates could obtain at least one of the two marks on offer and about four fifths of the cohort could obtain both marks for correctly explaining the meaning of the phrase 'overtime'

payment'. Correct responses included 'an overtime payment is where you are paid for working extra hours than in your contract, eg, time and a half'.

- (f) (i) This part of the question was generally well answered. Candidates demonstrated a good understanding of how 'strike action' may impact on a business. Full mark answers included "strike action may lead to increased wages which leads to increased costs which may lead to decreased profit".
- (ii) This part of the question was satisfactorily answered. Only just over a third of the candidates achieved one or both of the marks on offer. This suggests that 'a single union agreement' and its possible benefits for business had not been fully understood by the candidates.

The most common correct benefit included 'All the workers are in the same union, therefore, making it easier for the S&F to negotiate with the employees which saves time and money'.

A293 Production, Finance and the External Business Environment

Introduction

This was the second year in which this unit has been assessed. It is difficult to draw a direct comparison with the previous year, as the entry in 2010 was very small and candidates were sitting the examination after only one year of studying Business Studies at GCSE level.

The examination was based on a pre-release case study. The context of the case study was a specialist cheese producer based in the mythical county of Moorshire. The idea for the case study was based on the cheese business in Lancashire where small producers make a range of hand-made cheeses which are sold nationally and which are also exported. The case study appeared to be accessible to the vast majority of candidates.

The level of performance overall was very good. It was apparent that many centres had prepared their candidates well by reflecting on the information contained in the case study. In some instances, it appeared that some questions had been “spotted” by some centres and candidates answered these questions well. This was particularly the case with question 3(c). However, it was quite clear that there were many able candidates who were able to use the Business Studies knowledge which they had learned in order to apply this well and to produce detailed and sophisticated analyses in response to some challenging questions which they could not have been prepared for specifically.

The highest level skill which candidates are challenged to demonstrate is evaluation. Again, it was evident that a significant number of candidates were able to make mature judgements based on the evidence in the case study, or issues which they had become aware of in their studies or from their understanding of the real world. There is now a national focus on these “thinking skill” activities.

For several years, a considerable attention has been paid in the OCR INSET programme for GCSE Business Studies to teaching methods which will develop the higher level thinking skills of analysis and evaluation. These include the use of “active” learning strategies such as “thinking hats”, diamond ranking, washing lines, comparison alley or Venn diagram, market place and ‘mystery’ activities. These, and other, thinking skill strategies have been illustrated using materials which are based on Business Studies contexts and issues and teachers have been able to use these ready-made resources in their teaching. There was clear evidence of the impact of the learning which can result from the use of these strategies in the candidates’ scripts.

In addition, great stress has also been placed in the INSET programme on the use of writing frames to help candidates to develop structured answers. Evidence of the use of these has grown over several years. There was significant evidence of their use in candidates’ responses this year. They particularly help candidates with the longer type questions where they need to analyse the advantages and disadvantages of different events or courses of action before coming to an informed conclusion. The use of writing frames also reflects the structure of the levels of response mark schemes and so helps the candidates to perform well.

The examination was aimed at the full range of candidates from A* to G. Some questions were specifically designed to give an opportunity for the lower grade candidates to show what they could achieve, including some of the tick box and missing words questions. Those designed to provide an opportunity for the higher grade candidates to display their abilities were open questions in which it was expected that the lower grade candidates might gain some credit. These questions were marked using a levels of response mark scheme. To perform at Level 1

on these questions, the candidates had to usually use analytical skills to analyse the advantages/arguments for and disadvantages/arguments against a course of action. It was pleasing to see a generally good level of performance by candidates at Level 1. To be awarded Level 2, candidates had to demonstrate that they could come to a reasoned conclusion. The best candidates used data from the case study or brought their own knowledge into consideration in determining their judgement. There were some very sophisticated answers at Level 2.

Most candidates expressed themselves reasonably clearly. The use and spelling of specialist terms was generally very good.

The ability of the candidates to apply numeracy skills was very good. This may have been helped by centres preparing candidates specifically for the types of questions which could be based on the case study data. However, it was still pleasing to see.

Comments on individual questions

Question One

- a) The vast majority of candidates scored well on this introductory question which was designed to test their understanding of how the general economic performance impacts on a business. It was also designed to give candidates an encouraging start to the examination.
- b) Candidates generally were able to identify the correct calculation required and to perform it accurately. Many answered it by identifying the increase in the actual numbers employed, whilst others, either additionally or alternatively, calculated the percentage increase in employment. Credit was given to both answers.
- c)
 - (i) This was the first occasion in which any specific questions were based on the idea of inward investment which features as an element of globalisation in the specification. It was appropriate to restrict the marks available to one because of this development. Many candidates did not know the correct answer, most commonly they thought that inward investment referred to UK firms investing in their own firms.
 - (ii) This part of the question referred to the benefits which could result from inward investment. Answers which discussed the benefits of investment were fully rewarded, irrespective of whether or not the previous question had been answered correctly. Candidates wrote about the effects of investment on employment, the increased demand for the produce of local businesses, raising the awareness of the region and the possible multiplier effect which investment could bring. A small number of candidates gave a sophisticated analysis of how investment could lead to increased competition and benefit consumers in terms of lower prices and better quality.
- d) This part of the question proved to be a relatively straight-forward one for many candidates. The most common error was to suggest that it was true that cuts in spending would not affect the demand for services provided by businesses in East Moorshire.
- e) There were many good answers at Level 1 to this part of the question. Candidates were able to identify the benefits of an increased labour supply possibly in terms of skills and lower wages, the increase in demand for products generally and for specific types of products, as well as the multiplier effect and the increased payments of taxes to the local council. Some wrote of the possible effects on the housing market, though it was not always clear whether they were identifying this as a benefit or a problem. Other candidates wrote about the increased number of people who could work in the education and health services. Unfortunately, a significant number of candidates limited their marks

by writing only about benefits. Those who also wrote about problems most commonly referred to the impact on the local council which would have to increase the provision of education and health services with a consequent impact on costs. Only a very small number of candidates attained Level 2. To do this they needed to address the *extent* to which the population changes would affect the local economy – this directive was clearly identified within the wording of the question.

Question Two

- a) (i) Almost all candidates appeared to answer this part of the question correctly.
- (ii) Again this part of the question, which tested the candidates' ability to apply numerical skills, was generally correctly answered.
- b) This kind of data interpretation question has featured regularly on OCR Business Studies GCSE examinations over many years. It still discriminates well. The question is designed to test the ability of the candidates to read business data presented in the form of pie charts. The most common error was, as always, to identify the change in the percentage of sales of cheeses to supermarkets, rather than to calculate the change in the **value** of sales as directed by the question.
- c) (i) This part of the question required a fairly simple calculation to be performed. Even though the appropriate sum was presented for the candidate to complete, there were a small number of candidates who were unable to come up with the correct answer.
- (ii) Many candidates performed well at Level 1 by explaining that sales were likely to fall as the change in the exchange rate would cause the price of the cheese to rise in the USA. Many correctly calculated the new price. Fewer candidates explored the extent to which the sales would be affected, so many failed to access Level 2. Those who did mainly discussed the fact that the demand for hand-made speciality cheeses might not be sensitive to price changes if bought by consumers on higher incomes.
- d) (i) Many answers to this part of the question lacked clarity. Candidates who scored well usually discussed the advantages in terms of the quality of the produce and that the workers would not need training.
- (ii) This part of the question, on the whole, was very well answered. Some candidates suggested that the owners would need to be multi-skilled. This answer was not credited as the question referred specifically to the changes since 2008 which were identified in the case study.
- (iii) Some candidates did not answer this part of the question appropriately. It clearly referred to the effect on the workers. Those who wrote about the effect on the businesses were not rewarded. Those who correctly wrote about the effect on the workers mentioned that they had kept their jobs by becoming multi-skilled or that it would prove to be easier to get work in the future. Some candidates correctly suggested that the workers would not be using their specialist skills fully and so might feel under-valued or that they might feel pressured by having to undertake a range of different jobs.
- (iv) This proved to be a challenging question for many candidates. Very good candidates developed excellent answers which dealt with the conflict facing the business from needing to reduce costs, because of the fall in sales, against the need to retain the workers the business had trained so that it could be ready to meet any up-turn in business once the recession was over. There were some confused answers which did not appear to appreciate that by continuing to employ all the

workers it would have excess capacity and would, therefore, risk the long term survival of the business.

- e) The specification requires candidates to know three methods of production – job, batch and flow. The case study described the way in which the different cheeses were produced at different times of the week. Many candidates were able to use this evidence to conclude that the batch method of production was being used. A number of candidates wrote erroneously about hand-made production.
- f)
 - (i) There were a lot of good answers to this part of the question. Those candidates who identified organic production as one way of improving the environment were able to explain how this avoided the use of fertilisers or chemicals. Those who wrote about getting its milk supplies locally were able to discuss the benefits in terms of reduced pollution or carbon footprints or transport miles. Some candidates identified the methods which Lathom's Dairy was using but they then failed to provide an explanation of how the method would improve the environment.
 - (ii) This part of the question generated a lot of good discussion as candidates compared the advantages in terms of the savings in electricity costs and the boost to the image of the business as an environmental or ethical producer with the possible negative impact on the local community because it might be an eyesore or because it might create noise. The best answers, which reached Level 2, tended to focus on the impact that these advantages and disadvantages might have on the sales of the business.

Question Three

- a)
 - (i) It is clear that many candidates still find the concept of cash flow difficult to grasp.
 - (ii) This part of the question discriminated very well at the higher grades. Very good candidates were able to tease out answers suggesting that an overdraft would be appropriate and using the evidence in the case study forecast to speculate that the funding requirement appeared to be only a short term issue. The better candidates were then able to compare the advantages of overdrafts against their disadvantages in terms of interest rates and the increased indebtedness of the business. There were a lot of poor answers suggesting, for example, that loans would be better. These answers usually betrayed poor knowledge of the differences between loans and overdrafts.
 - (iii) This part of the question was frequently poorly answered indicating, again, that many candidates find cash flows difficult to understand. The better candidates wrote about the nature of forecasts as predictions and the assumptions in terms of prices, costs and sales.
- b)
 - (i) This part of the question was well-answered by the majority of candidates.
 - (ii) The clues given in this part of the question clearly helped candidates to discuss the key issues relating to leasing and purchasing using a bank loan – though not always correctly. Good candidates contrasted the possibility of upgrading machinery with the fact that money was being spent on an item which would not become an asset of the business. The very best candidates achieved Level 2 by speculating on whether or not machinery was likely to improve significantly during the period of lease, thus making a lease the more attractive option or whether or not Lathom's would want to continue production after the period of the initial lease.

- c) There were some very sophisticated answers to this part of the question based on an analysis of the time it would take for the mass produced cheese to yield a greater product than the hand-made cheese. It was not the intention that such a sophisticated line of analysis was required when the question was set. Nevertheless, it was pleasing to see centres challenging their candidates to think in this way. Another way in which the candidates achieved Level 2 included discussing the fact that hand-made cheese was the strength of the business and moving into mass production might have a negative effect on its image. More often, candidates discussed the issue of the high investment costs as a factor which could influence the decision. At Level 1, candidates compared prices, sales and profit margins.

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