

Business Studies

Advanced GCE **A2 7811**

Advanced Subsidiary GCE **AS 3811**

Mark Schemes for the Units

January 2010

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OCR Publications
PO Box 5050
Annesley
NOTTINGHAM
NG15 0DL

Telephone: 0870 770 6622
Facsimile: 01223 552610
E-mail: publications@ocr.org.uk

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2874 Further Marketing

- 1 (a) Analyse the possible benefits of market segmentation for The Poon Chinese Restaurant. [6]

Market segmentation is where the market is analysed to identify the different types of consumer. Markets can be segmented using a variety of different methods including demographically, geographically, using attitudes, etc.

By assessing the market, firms are able to target their marketing effort in a more effective way. In the case, Norman may be able to assess the products that he sells, the way The Poon is promoted, how the products/services are priced etc.

Level 3	Analysis of the use of market segmentation in the context.	(6-5)
Level 2	Application and/or understanding of the use of segmentation.	(4-3)
Level 1	Identification/knowledge of market segmentation.	(2-1)

- (b) The price of the 'Early Bird Special' used to be £12. Following the price reduction, sales increased by 33%. Calculate its price elasticity of demand. [4]

$$\text{PED} = \frac{\% \text{ change in demand}}{\% \text{ change in price}}$$

$$\% \text{ change in demand} = 33\%$$

$$\% \text{ change in price} = 2/12 \times 100 = 16.667\% \quad [2]$$

$$\text{PED} = \frac{33}{16.667} \quad [1] = 2 \quad [1]$$

- (c) Evaluate the methods that could be used to set prices at The Poon. [16]

Prices can be set in a variety of ways. Discussion could centre on competition-based, psychological based plus aspects of marginal/contribution given the likely high fixed costs at The Poon. There are a number of different products and meal options (lunches/takeaway/normal restaurant etc) and better candidates will consider different pricing approaches for the range of products/services provided.

Level 4	Evaluation of the methods in relation to pricing, in context.	(16-10)
Level 3	Analysis of the method(s) in the context.	(9-6)
Level 2	Application/Understanding of the method(s).	(5-3)
Level 1	Identification of pricing method(s).	(2-1)

- 2 (a) **Analyse two possible methods of sampling that could be used to gather market information about The Poon.** [6]

Sampling can be done in a variety of ways. The specification considers random, stratified, cluster, systematic, quota, and convenience. All are possible answers in this case. Norman seeks different types of information from a range of possible respondents.

Level 3	Analysis of the sampling method(s), using the context.	(6-5)
Level 2	Application of the sampling method(s).	(4-3)
Level 1	Knowledge of sampling method(s).	(2-1)

- (b) **Other than issues of sampling, advise Norman on a strategy needed to gather appropriate market research data. Justify your answer.** [16]

Discussion should centre on the actual information needed and the means of getting it. Consideration of both secondary and primary data in line with field and desk research could be a good starting point. Issues to consider are: What to ask?; When to ask?; How to ask? etc. There is evidence in the text about what might be needed but suggestions about other **appropriate** information would be credited. Discussion of cost and benefits, questionnaire design etc could also be covered. Each option throws up lots of possible methods and ideas. There is much to consider.

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

- (c) **Discuss how below-the-line promotion methods could be used by Norman to increase the numbers attending The Poon.** [10]

Below-the-line promotion is promotional activity other than main media advertising. This could include aspects of personal selling, special menu nights, targeted leafleting, live music, promotional pricing (BOGOF) etc.

Level 4	Evaluation of the use of below-the-line methods, in context.	(10-9)
Level 3	Analysis of below-the-line methods in the context.	(8-6)
Level 2	Application/understanding of below-the-line methods.	(5-3)
Level 1	Some knowledge of promotion.	(2-1)

2875 Further Accounting and Finance

- 1 (a) (i) Using Tables 1 and 2, calculate the revised net profit in 2009 for the bar/restaurant. [4]

Original stock value = $2,098 \times £2.92 = £6,126.16$ (1)

Revised stock value = $1,327 \times £1.46 = £1,937.42$ (1)

Change in profit = $£6,126.16 - £1,937.42 = £4,188.74$ (1)

Net profit decreases from $£1,200 - £4,189 = (£2,989)$ (1)

- (ii) Using the revised figures, after the changes for stock, evaluate ABS4u's 2009 financial performance. [16]

Profitability (based on a gross profit of £176,421 and a net trading profit of £13,821 and for the bar/restaurant a gross profit of £37,661 and a net profit of £(2,989).

	Bar/Restaurant	Beauty Spa	Gym	Sports Injury Clinic	Total
% Gross Profit	51.2	61.7	56.1	56.2	55.4
% Net Profit	(4.1)	(107.2)	36.2	(189.4)	4.3

Although there appears to be a diverse range of performances from individual profit centres, the overall net trading profit is 4.3%.

Based on these figures is there a case for shutting down some of the poorer performing profit centres or is there strong synergy in place?

Investment

ROCE (after stock re-valuations) is $(£13,821/£83,110) \times 100 = 16.6\%$

Gearing $(£42,500/£83,110) \times 100 = 51.1\%$

A high level of gearing but less significant in light of the potential support from OLL.

Liquidity (after stock re-evaluations)

Current ratio = 0.70:1

Acid test ratio = 0.35:1

Both liquidity ratios are well below normal requirements and indicate a serious liquidity position. However the sums involved are relatively small and with the financial support of the new parent company ABS4u should be able to cope with any working capital problems.

As usual little can be concluded from these ratios without access to previous year's results and comparisons with industry levels including those of OLL the parent company.

However the losses by three of the four profit centres needs to be explored.

Analysis of revised figures excludes changes to the valuation of land and buildings; evaluation may recognise this.

Accept answers based on own figure rules

Level 4	Candidate evaluates based upon analysis of data and consideration of other factors for ABS4u	(16-10)
Level 3	Candidate demonstrates analysis of information using appropriate criteria for ABS4u	(9-6)
Level 2	Candidate demonstrates understanding of performance	(5-3)
Level 1	Candidate demonstrates knowledge of the concept of performance	(2-1)

(b) Analyse how information technology could help ABS4u keep accurate stock records. [6]

The issue focuses on the need for effective stock control. Information technology would have enabled the accurate recording of sales (stock outflow) and stock received (inflow). The question is historically how have stock levels been monitored? Are there regular physical stock checks? At least IT would allow managers to regularly monitor stock levels.

However the issue can't be solely solved through IT. Questions must be asked about how this level of shrinkage has occurred. Is it wastage, damage, theft (employees/customers), short deliveries by suppliers etc?

Level 3	Candidate demonstrates analysis of information technology in the context of ABS4u	(6-5)
Level 2	Candidate demonstrates understanding of information technology	(4-3)
Level 1	Candidate demonstrates knowledge of information technology	(2-1)

(c) Discuss the advantages and disadvantages of using profit centres at ABS4u. [10]

Profit centres can be used when a business can clearly identify the source of sales and costs.

Profit centres can help management to monitor and evaluate the performance of specific areas of business operations. Budget and target setting becomes far more specific and measurable.

The managers of profit centres can be encouraged to treat their centre as a stand alone business unit, this can be motivating providing the manager has the ability to cope with these additional pressures. Successful profit centre managers can be marked out for progression within businesses.

However individual profit centres can lose sight of their overall company role and internal competition can result.

Profit centres must be involved in the establishing of achievable and realistic targets otherwise they will appear to be imposed on the profit centre.

Ambrose might witness this with the Beauty Spa and Sports Injury Clinic who have both recorded good gross profit margins but have been sent into a loss by the absorption method used by senior management.

On the other hand the gym, in particular, might become complacent based in their net profit level.

Like other issues in the case study, Ambrose needs to investigate how effective the profit centre system has operated in Abs4u.

Reward candidates who address the issue from a holistic approach.

Level 4	Candidate evaluates based upon analysis of the profit centres and consideration of other relevant factors in the context of ABS4u	(10-9)
Level 3	Candidate demonstrates analysis of information using appropriate criteria in the context of ABS4u	(8-6)
Level 2	Candidate demonstrates understanding of the concept of profit centres	(5-3)
Level 1	Candidate demonstrates knowledge of the concept of profit centres	(2-1)

- 2 (a) Using Table 3 analyse one alternative method of absorption costing that could be used by ABS4u. [6]

Currently the overheads are equally apportioned across all four profit centres. This is a simple approach, easy to administer and apply. However is it a true reflection of the apportionment of overhead costs?

There are several alternatives; the number of full time employees in each centre might be a truer reflection of business activity as the club is a customer service market.

The same might be said for allocating overheads by the area occupied by each centre, the beauty spa and sports injury clinic probably occupy a minority share of the whole centre.

The one other alternative we have data for is basing allocation on the sales revenue generated by each centre. If this method was used there is a significant change in each centre's performance.

Figures are based on results before changes to stock valuations.

	Bar/Restaurant £	Beauty Spa £	Gym £	Sports Injury Clinic £	Total £
Sales	73,600	24,070	204,480	16,550	318,700
Gross Profit	41,850	14,840	114,620	9,300	
Overheads*	37,560	12,358	104,227	8,455	162,600
Net Profit	4,290	2,482	10,393	845	
*% Share of overheads	23.1	7.6	64.1	5.2	

Level 3	Candidate demonstrates analysis of an absorption method for ABS4u	(6-5)
Level 2	Candidate demonstrates understanding of an absorption method	(4-3)
Level 1	Candidate demonstrates knowledge of an absorption method	(2-1)

- (b) **Recommend whether the Sales and Marketing Director's new membership proposal (line xx Table 4) should be adopted. Justify your view.** [16]

Comparable average monthly membership revenue = $9 \times £35.50 = £319.50$

$£319.50/12 = £26.625$ compared with current rate of $£35.50$

Current average monthly contribution per member = $£35.50 - £15.60 = £19.90$

Proposal average monthly contribution per member = $£26.625 - £15.60 = £11.025$

Therefore projected fall in contribution = $(£19.90 - £11.025) \times 40 = £355$

However the proposal is still making a positive contribution and in terms of overall profitability is a small sum to ensure a short- term increase in cash flow.

Cash flow injection = $£319.50 \times 40 = £12,780$ and an instant improvement in the liquidity position.

However how will existing members react to this 'loyalty' scheme? Is there a danger that they will 'vote with their feet' and move to the competitor?

	Candidate evaluates based upon analysis of data and consideration of other factors in the context of ABS4u	(16-10)
Level 3	Candidate demonstrates analysis of information using appropriate criteria in the context of ABS4u	(9-6)
Level 2	Candidate demonstrates understanding of proposal	(5-3)
Level 1	Candidate demonstrates knowledge of proposal	(2-1)

2876 Further People in Organisations

- 1 (a) (i) **Calculate the gross weekly wage a machine operator would receive in Week four of May 2010, despite a one day absence.** [4]

Basic wage for week = 32 hours x £9.50 = £304.00 (1)

Bonus (75% of £304.00 = £228.00) (1)

Gross wage = £304.00 + £228.00 = £532.00
(BOD £532.16 rounding) (2)

NB Award 4 marks for correct answer with no workings.

- (ii) **Analyse the potential impact on PFL of paying machine operators an hourly wage plus a production bonus.** [6]

By paying the bonus PFL would be hoping that the machine operators work hard to produce more fireplaces. Table one shows that the machine operators have produced more fireplaces in three of the four weeks in November 2009 than the weekly production target of 200 fireplaces, so it could be argued that paying a bonus on top of the hourly rate actually does motivate the machine operators to produce more. However, there is no information for any other time period, so this conclusion can only be drawn from information about November 2009, the situation may well have been different in other months.

However, paying the bonus means that production levels will need to be carefully monitored and recorded in order to calculate the bonus to be paid to each of the machine operators and paying the bonus actually makes the calculation of the weekly wage costs more complex and time consuming, and if the output is not accurately recorded it is likely that there could be disagreements with the machine operators over what they have been paid.

Furthermore, it seems that the bonus scheme payment criteria have not been beneficial because the machine operators can afford to take days off and still earn more than what they would have received as a normal weekly wage for working a full 40 hour week. It could be argued that the bonus scheme therefore is not helping with the problem of absenteeism, but actually contributing towards it.

However, the case study indicates that there is a shortage of potential workers in the area and the bonus scheme could mean that labour turnover at PFL is low or if recruitment is necessary this will be easier as a bonus on top of hourly wages would be attractive to potential recruits.

By paying a bonus PFL's weekly wage costs are increased. If they were to increase the hourly wage or pay the machine operators an appropriate salary it may mean that production targets are still achieved, but at a lower total and unit cost than with the current (apparently) generous bonus scheme.

Level 3	Candidate demonstrates analytical skills when considering the potential impact on PFL of paying the machine operators an hourly wage plus a production bonus.	(6-5)
Level 2	Candidate demonstrates the ability to apply knowledge of payment methods.	(4-3)
Level 1	Candidate offers relevant theoretical knowledge only.	(2-1)

(b) Evaluate methods PFL could introduce to reduce levels of absenteeism amongst machine operators. [16]

PFL already have the bonus scheme, but this does not seem to be working very well as the machine operators can afford to take days off and still get paid more than if they were just paid an hourly wage for a 40 hour week. It could be argued that the bonus scheme might need to be changed to incorporate a requirement to work a full week to qualify for the bonus. However, if the scheme was changed without consultation with the machine operators or if the machine operators were to resist such a change (as they probably would) it is likely that industrial relations problems would occur.

It is also possible that the bonus scheme could be scrapped altogether, and to compensate for this the hourly wage could be increased, however this may not stop un-notified absences, if the machine operators still feel that they are earning enough to take days off.

A more practical method may be to introduce an attendance bonus which is only paid if the machine operators work a full week. This would add to the weekly wage bill for PFL but may encourage the machine operators to come to work every day. This could be added to the current payment methods or the current bonus rates could be amended to incorporate an attendance element.

Another possible remedy is to introduce disciplinary procedures which would be invoked for un-notified or unauthorised absences. This would hopefully make the machine operators less likely or able to take days off, but may cause some resentment. However, it seems that the problem is not helped by management reluctance to tackle the absence problem and so the introduction of more formal procedures may be needed.

Level 4	Candidate demonstrates evaluative skills when considering methods PFL could introduce to reduce levels of absenteeism.	(16-10)
Level 3	Candidate demonstrates analytical skills when considering methods PFL could introduce to reduce levels of absenteeism.	(9-6)
Level 2	Candidate demonstrates the ability to apply knowledge of methods of reducing absenteeism.	(5-3)
Level 1	Candidate offers relevant theoretical knowledge only.	(2-1)

(c) To what extent do you agree that PFL's approach to recruitment is effective?

[16]

Stanley chose to take what he thought might be a quick, easy and cheap method to find someone to help him in the yard. However, after several years working successfully with his brother, he seems to have underestimated the qualities needed to carry out the job to a reasonable standard, and also has not taken enough account of the times when he cannot be there, and has to have someone responsible to leave in charge.

Whilst the recruitment of Peter has reduced the time, effort and cost of a more formal recruitment process, it could be argued that this has been offset by Peter's poor attitude to his work, the customers, and the possibility that he is actually "pocketing" some of the takings at the yard.

Peter also has no qualifications, little or no work experience, and is very young to leave in charge of the business and premises when Stanley is not there. It could be argued that PFL (Stanley) should have spent more time and effort considering the roles, responsibilities and requirements that someone would need to work effectively as his assistant. It could be argued that he should have recruited someone older, with more work experience, possibly in similar sort of work, and that he should have considered giving whoever he recruited some training in the requirements of the job.

Peter might have turned out to be a reasonable choice had Stanley given him the appropriate training and helped him settle in more. With more supervision in the early stages of Peter's job Stanley could have moulded Peter into the type of employee he was looking for.

Also neither Cyril or Stanley seemed to have much input into the recruitment of the machine operators. They merely appointed the first four people sent to them by the job centre. As an alternative they could have advertised the vacancies in local newspapers, or even on local radio stations. Whilst this might have been more expensive it would probably have generated more applications from which PFL could have picked the best. It would, however, have also been more time consuming, and Cyril would have had to spend a lot of time going through the applications, short-listing appropriate candidates and then carrying out interviews. It is also likely that Cyril will not have had any experience of carrying out these processes and may still not have selected the best people for the jobs.

The appointment of Peter does not seem to have been effective, however it is possible to argue that the recruitment of the machine was more effective based on the information from Table 1, but this is only for one month, and the case study does clearly indicate that there are problems with unauthorised absences and that there are customer complaints due to production being disrupted by absenteeism.

Level 4	Candidate demonstrates evaluative skills when considering the extent to which PFL's approach to recruitment is effective.	(16-10)
Level 3	Candidate demonstrates analytical skills when considering the extent to which PFL's approach to recruitment is effective.	(9-6)
Level 2	Candidate demonstrates the ability to apply knowledge relating to recruitment methods and techniques.	(5-3)
Level 1	Candidate offers relevant theoretical knowledge only.	(2-1)

- 2 (a) Evaluate the possible consequences to PFL if Cyril decides to dismiss one of the machine operators for unauthorised absences. [10]

It is possible that the other machine operators may take some of industrial action in support of their colleague who has been dismissed. This will disrupt production and distribution of fireplaces. It will also mean that PFL will need to find ways to placate the machine operators and/or negotiate with them regarding any industrial relations issues occurring as a result. If the machine operators join a trade union PFL will also need to negotiate with the Trade Union and/or ACAS..

If Cyril dismissed the employee without any warning, or without following an acceptable procedure, it is quite possible that the machine operator who was dismissed may take legal action against PFL, this may mean that it becomes necessary to prepare documentation for an Employment Tribunal, and justify PFL's actions at the tribunal.

It will also mean that PFL will need to recruit a suitable replacement, in a situation where there are not many suitable employees available due to low levels of unemployment in the area. This may well be time consuming and expensive, unless PFL use the job centre, as they did when recruiting the current machine operators.

It may also mean that production of fireplaces is stopped, or falls below the required target level if the production is hindered by any industrial action. This will cause more customer complaints, and may mean that some current customers go elsewhere.

However, it may mean that the level of unauthorised absences decreases if the other machine operators see that PFL is taking action against one of the other machine operators.

Level 4	Candidate demonstrates evaluative skills when considering the potential impact on PFL following the dismissal of one of the machine operators.	(10-9)
Level 3	Candidate demonstrates analytical skills when considering the potential impact on PFL following the dismissal of one of the machine operators.	(8-6)
Level 2	Candidate demonstrates the ability to apply knowledge relating to dismissal.	(5-3)
Level 1	Candidate offers relevant theoretical knowledge only.	(2-1)

- 2 (b) Analyse two possible benefits to PFL if the machine operators join a Trade Union. [6]

Firstly, it will provide PFL with a formal means of negotiating with the trade union over any matters relating to the machine operators. The trade union can act as a go-between which may mean that negotiations are carried out more satisfactorily/successfully than if it were to be carried out by PFL (Stanley and Cyril)

The trade union may even warn the machine operators about the problems they are causing with unauthorised absences and therefore help PFL reduce/remove the problems which are being caused. It is also possible that the trade union could help PFL evolve an appropriate grievance/dismissal procedure as Stanley and Cyril may not have the necessary knowledge and experience to do this themselves.

Level 3	Candidate demonstrates analytical skills when considering benefits PFL could obtain if the machine operators join a trade union.	(6-5)
Level 2	Candidate demonstrates the ability to apply knowledge relating to trade unions.	(4-3)
Level 1	Candidate offers relevant theoretical knowledge only.	(2-1)

2877 Further Operations Management

- 1 (a) Analyse two possible internal economies of scale SGRL might gain as a result of its takeover of a removal company in the Bristol. **6 marks**

Economies of scale are the reductions in unit costs achieved as a result of increasing the scale of operations.

There are a number of internal economies that might be achieved by taking over the Bristol removal company

- Technical – no need for twice as many vehicles - they could use larger removal lorries etc
- Managerial – no need for twice the number of managers – e.g. on the administrative side
- Marketing - can advertise their services to a wider area e.g. on the Internet, in the press etc
- Risk bearing - spreads the risk of running the business being dependent on the local economy in the southeast
- Purchasing - may get better deals if they lease/purchase more vehicles, use more packing materials etc.

Candidates might suggest other possible economies of scale.

Level 3	For analysing two possible economies of scale SGRL might gain as a result of its takeover of a removal company in the Bristol.	(6 - 5)
Level 2	For demonstrating an understanding of possible economies of scale SGRL might gain as a result of its takeover of a removal company in the Bristol.	(4 - 3)
Level 1	For knowledge of possible economies of scale a business might gain as a result of expansion.	(2 - 1)

(b) Evaluate the costs and benefits to SGRL of complying with health and safety legislation. 16 marks

HaSaWA aims to protect the health and safety of all individuals at work and also the public whose safety might be put at risk by the activities of people at work.

- SGRL must prepare a general policy on health and safety
- It places a duty of care on employers - they must not be negligent
- It places a duty of care on employees to take reasonable care of their own safety and the safety of others
- The business must give training, information, supervision and instruction to ensure the employees health and safety
- There are manual handling regulations. The correct protective clothing must be worn.

Some areas of operation at SGRL candidates might discuss include:

- Lifting of heavy furniture etc - correct techniques - injuries sustained by staff etc
- Driving regulations - could also mention hours of work - EU and UK regulations - affects on other road users
- Maintenance of vehicles.

Cost and benefits candidates might mention include:

Low safety standards might keep costs down and help a business to gain a competitive advantage.

- Equipment that is not maintained may be dangerous - putting the lives of staff and others at risk
- Correct training should reduce the risk of injury, therefore reduce absence from work
- Employees might sue the business if they are injured or put at risk by the business
- Poor health and safety might demotivate staff
- The business might be liable for prosecution and also run the risk of being closed down
- The business may gain a poor reputation if there is bad publicity leading to fewer orders for work.

Candidate might mention other relevant areas.

Level 4	For evaluating how health and safety legislation impacts on the operations of SGRL eg balancing up the costs of correct training with the reduction in days of absence through injury or the reduced likelihood of compensation claims for negligence.	(16 - 10)
Level 3	For analysing how health and safety legislation impacts on the operations of SGRL eg the cost of training their staff.	(9 - 6)
Level 2	For demonstrating an understanding of how health and safety legislation impacts on the operations of SGRL.	(5 - 3)
Level 1	For showing a basic knowledge of health and safety legislation.	(2 - 1)

- (c) Discuss whether contribution costing is the most appropriate method of costing for SGRL. **10 marks**

- Absorption costing** - The most complicated. Would try to work out in detail the various costs incurred in each job e.g. crew hours, fuel consumed, vehicle overheads, packing of items etc.
- It is complex and time consuming but generally accurate and can be used to see if targets have been met and also set a standard to be achieved. Good for very cost conscious businesses e.g. in a recession.
 - The information however might be out of date e.g. fuel costs.
 - Sometimes the assumptions might be questionable e.g. the time taken to do packing or to deliver, especially over long distances.
- Fixed costing** - Easier than absorption but a similar principle. The costs are expressed as a proportion of some simply calculated cost e.g, x% of weekly wages or packaging dependent on vehicle hired for the job. It does not provide as detailed a breakdown as absorption but is simpler to calculate and might suit smaller business with a fairly simple service where one product is very like any other - this would not be the case for SGRL.
- Contribution costing** - SGRL would calculate all the variable costs of doing a job and set a price they would quote and the difference is the contribution to all the company's overheads and profit. It is better really for special orders. It is a simple method but what if there is a change in sales and the contributions do not cover the overheads?

Level 4	For evaluating whether contribution costing is the most appropriate method of costing for SGRL.	(10 - 9)
Level 3	For analysing whether contribution costing is the most appropriate method of costing for SGRL.	(8 - 6)
Level 2	For demonstrating an understanding of whether contribution costing is the most appropriate method of costing for SGRL.	(5 - 3)
Level 1	For demonstrating knowledge of costing methods a business might use when setting prices.	(2 - 1)

- 2 (a) (i) Using the figures in Table 1, calculate the cost saving over the remaining three years if SGRL converted their 10 petrol removal vans to LPG.

4 marks

Cost of conversion is £4500 per vehicle - * 10 vehicles = £45 000 1 mark

Fuel saving is £5 per 100 miles = £2500 per vehicle = £25 000 * 3
over three years

(50 000/100 * 5) = £75 000 1 mark

Tax saving £50 per year * 10 vehicles = £500 *3 = £1500 1 mark

Cost saving overall = £76500 - £45 000 = £31 500 4 marks

- (ii) Analyse two further implications for SGFL of converting their older vehicles to LPG.

6 marks

Candidates may discuss a wide range of possible issues such as;

- The fuel is only available in a limited number of garages. This might limit the destinations the vans could be sent to.
- As fuel prices rise, LPG will become more economical over time.
- The vehicles have only three years of life - is conversion really worthwhile - what happens if petrol/diesel prices fall.
- SGFL could use the fact that they use LPG as a form of promotion - showing their green credentials.
- SGFL would look good in a green audit.
- The government might put forward legislation compelling the use of greener fuels in the future.

Level 3	For analysing two possible further implications for SGFL of converting their older vehicles to LPG.	(6 - 5)
Level 2	For demonstrating an understanding of possible further implications for SGFL of converting their older vehicles to LPG.	(4 - 3)
Level 1	For knowledge of possible implications of converting vehicles to some form of "green fuel".	(2 - 1)

- (b) Evaluate operational methods SGRL might be able to use to reduce the impact of the recession on the business. 16 marks

This is a strategic question - and candidates should look at the benefits and implications of whatever methods they choose.

Non-operational costs e.g. marketing costs would not be appropriate areas for discussion given the context of this question.

The typical operational costs of SGFL would include such things as

- wages of crew;
- fuel cost;
- packaging costs;
- vehicle maintenance and servicing costs;
- costs of the vehicle;
- tax costs;
- Salaries of backroom administrative costs;
- Candidates might mention other appropriate costs.

Candidates might discuss those costs that can easily be changed versus those which cannot i.e. overheads versus direct costs i.e. short run versus long run.

Should they run down their vehicle fleet?

Should they reduce the number of staff they employ?

Should they close/change the nature of their new depot - might look at the costs and levels of business at each site

Able candidates might also appreciate that recessions come to an end and then the firm might be looking to expand its operations again. This is a question of balancing survival in the short term with long-term growth plans.

Level 4	For evaluating methods SGRL might be able to reduce its operational costs in a recession. For example they might suggest cutting down on crew staff - so who should be released - first in v's last out or more expensive v's cheaper younger staff - it might depend on the levels of training as well.	(16 - 10)
Level 3	For analysing methods SGRL might be able to use to reduce its operational costs in a recession.	(9 - 6)
Level 2	For demonstrating an understanding of methods SGRL might be able to use to reduce its operational costs in a recession.	(5 - 3)
Level 1	For showing knowledge of methods firms might be able to use to reduce operational costs in a recession.	(2 - 1)

2879 Business Thematic Enquiry

Marking Strategy

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

In using the criteria:

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

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

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

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

Assessing the Plan

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

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

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

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

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

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

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

Criterion 3: Evidence of appropriate research methods (10 marks)

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

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

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

Criterion 4: Evidence of appropriate primary and secondary research

(10 marks)

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

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

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

Criterion 5: Evidence of collection, understanding and use of appropriate business studies knowledge

(15 marks)

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

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

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

Criterion 6: Selectivity, analysis and synthesis

(15 marks)

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

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

Criterion 7: Evaluation, recommendation or strategy development

(15 marks)

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

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

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

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

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

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

Criterion 9: Written communication skills**(5 marks)**

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

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

General

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

2880 Business Strategy

- 1 **Discuss the extent to which different stakeholders would regard C&K as a successful business.** [18]

Shareholders; achieving ROCE $(4,230.2/30,874 \times 100 = 13.7\%$ v target of 20% So shy of ROCE target, but how realistic is 20% in this climate/market?

Seasonal sales – from lowest point (Nov) to highest (July) 35%, well in excess of the 15% required. If sales are seasonal it is reasonable to expect 15% year on year growth. Year on year growth is in fact 7.5%. Profitable throughout the year.

Net margin average 2% does not compare favourably with bank rates, but capital employed is low.

Workers – Average labour cost about £30,440, so wages likely to be about 85% of this, so £25,874 but this includes overtime working and casual staff, so individual pay will be lower, but work is described as unskilled, so still a reasonable wage. No bonus paid last quarter. Issues of labour turnover and so possible staff morale problems.

Community – One of the largest employers in the locality - expect discussion of jobs and multiplier. But, also need to consider its externalities; traffic, smell noise etc.

Customers – Take 50 days to pay their invoices, so C&K might be seen as successful as they do not chase their customers. Three big supermarkets would quickly shift their purchasing if they thought C&K were less than good.

Suppliers.

Stock turnover

Ingredients $(2,019 \times 365)/184283.3 = 4$ days

Packaging $(287 \times 365)/8729.3 = 12$ days

So C&K are good at shifting inventory, so evidence of success.

Creditor payment period $(365 \times 18,411)/£193,012.6 = 34.8$ days, so not an unreasonable time to take to pay. Current ratio = 1.61 and Acid ratio is 1.50 suggest they are in no immediate threat from liquidation. Burns £582.4 cash per day, so value in the balance sheet is only enough for 1 day, so C&K rely on its creditors to fund their debtors.

Evaluation – Depends on what the stake holders' objectives are. Better candidates will not see stakeholder groups as homogeneous and will recognise difference between them and within them, especially employees.

Level 4	Discussion is evaluative in balancing different possibilities.	18-13
Level 3	Case material is subject to analysis in considering the extent to which a stakeholder might see C&K as a success.	12-8
Level 2	Demonstrates understanding of how different stakeholders will view C&K.	7-4
Level 1	Demonstrates knowledge of objectives or stakeholders.	3-1

- 2 C&K's notional capacity of 0.9m units per day equates to 22m units per month. Should C&K expand the size of its operation? Justify your answer. [19]

N	18.196		
D	22.254	60.001	20.000
J	19.551	60.000	20.000
F	18.195	58.499	19.500
M	20.753	59.999	20.000
A	21.051	64.500	21.500
M	22.696	68.999	23.000
J	25.252	73.500	24.500
J	25.552	73.499	24.500
A	22.695	70.501	23.500
S	22.254	64.500	21.500
O	19.551		

Taken from Fig.3:

Using a three period moving average, over the year trend has risen from 20 to 21.5, i.e. 7.5%, so end of 2011 will hit 23.1. Already breaching notional 22m in summer months. Can this be sustained through overtime working? The case says shift is as long as it takes – what is notional capacity + overtime?

Need to know cost of expansion, availability of resources. Benefits of expansion have to exceed the cost of capital. Opportunity cost?

Employees availability – case suggests no shortage – waiting list to work for C&K is closed.

Space – do they have room?

Market, will it continue to grow?

Level 4	Recommendation is reasoned explicitly in context.	19-14
Level 3	Recommendation is supported by analysis of case material.	13-9
Level 2	Recommendation supported by descriptive use of the data.	8-5
Level 1	Offers an unsupported recommendation.	4-1

3 How might an increase in direct taxation affect the strategic direction of C&K? [19]

Taxation is an external influence on a business that will impact both externally (market) and internally (resources).

Direct taxation is levied on income – so for employees and consumers this means PAYE. For suppliers, C&K and its retail customers this means corporation tax.

External – Possible reduction in household incomes. However, as a percentage of income a bag of salad is not that great so arguably relatively inelastic. If so, no need to panic!

Customers and suppliers will be seeking to maintain their profits, so may be squeezed margins at both ends.

Internally – Employees will seek to maintain their standard of living and so try to gain higher wages to compensate for the extra tax they pay. Might there be a possible opportunity to change payment systems to more closely match effort and reward? A greater willingness to do overtime?

Evaluation – Size of increase, nature of increase. Is it on the tax rate or the tax threshold? Possible direct tax rise for some sections of the community but not others. So, strategic reaction needs to reflect how C&K consumers are affected. If no effect, no need to do anything. If incomes fall, then stress the health benefit of salad – seek to reduce YED for the product – still buy it if incomes fall – so promotional/marketing campaign.

Is product seen as luxury? if so, seek to reposition it in the minds of the public.

Level 4	Discussion is evaluative in balancing different possibilities.	19-14
Level 3	Case material is subject to analysis in considering the external influence on strategy.	13-9
Level 2	Demonstrates understanding of how direct taxation might affect a business strategy.	8-5
Level 1	Demonstrates knowledge of direct taxation.	4-1

4 Waste is expensive and unethical.**Recommend, and justify, a strategy C&K could adopt to reduce waste levels. [20]**

Waste not just water.

Expect analysis of Table 1. Are all returns genuine? Might C&K need to talk to customer A at site 43 who seems to reject goods on Monday – suggesting that over ordering and so trying to reduce their costs by sending back material as apparently "faulty".

Ingredient waste is 2%, i.e. £37,000 pa. Any saving here might be worth having - need to establish why this material goes to waste. If it is internal issues then procedures and training needs consideration. If external, need to look at logistics and suppliers.

To reduce water waste spend of £2,530 per week after 60% recycling, so without any cleaning water bill would be £6,325 per week, so current cleaning saves £3,795 per week.

Adding another centrifuge would cost £150,000, to save a further 15%, i.e £949 per week. Assuming a 52 week year the annual saving is £49,350. This gives an ARR of 28.6% PBP of 3.3 years.

Better than return in capital, so worth it financially.

Analysis becomes more favourable if water prices rise.

"Cold air" waste – fix the doors, enforce standard operating procedures amongst forklift truck drivers.

Employee waste – labour turnover is a waste of training and skills.

Possible marketing benefits if C&K can reduce waste?

Strategy has to be realistic regarding extent of the problem and the available resources (human, physical, space, capital).

Level 4	Achieves a coherent strategy having evaluated different sides.	20-15
Level 3	Analysis of material supports creation of strategy.	14-9
Level 2	Recommendation supported by the description of case material.	8-4
Level 1	Offers an unsupported recommendation.	3-1

Grade Thresholds

Advanced GCE Business Studies (3811/7811)
January 2010 Examination Series

Unit Threshold Marks

Unit		Maximum Mark	A	B	C	D	E	U
2874	Raw	60	36	32	29	26	23	0
	UMS	90	72	63	54	45	36	0
2875	Raw	60	40	36	32	28	24	0
	UMS	90	72	63	54	45	36	0
2876	Raw	60	40	37	34	31	28	0
	UMS	90	72	63	54	45	36	0
2877	Raw	60	39	35	31	27	24	0
	UMS	90	72	63	54	45	36	0
2878	Raw	90	72	63	54	46	38	0
	UMS	90	72	63	54	45	36	0
2879	Raw	90	69	63	58	53	48	0
	UMS	90	72	63	54	45	36	0
2880	Raw	80	54	49	44	39	34	0
	UMS	120	96	84	72	60	48	0

Specification Aggregation Results

Overall threshold marks in UMS (ie after conversion of raw marks to uniform marks)

	Maximum Mark	A	B	C	D	E	U
3811	300	240	210	180	150	120	0
7811	600	480	420	360	300	240	0

The cumulative percentage of candidates awarded each grade was as follows:

	A	B	C	D	E	U	Total Number of Candidates
3811	15.39	46.15	76.92	84.62	100.00	0	13
7811	7.14	33.93	68.75	93.75	100.00	0	112

For a description of how UMS marks are calculated see:

<http://www.ocr.org.uk/learners/ums/index.html>

Statistics are correct at the time of publication.

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

OCR Customer Contact Centre

14 – 19 Qualifications (General)

Telephone: 01223 553998

Facsimile: 01223 552627

Email: general.qualifications@ocr.org.uk

www.ocr.org.uk

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Head office
Telephone: 01223 552552
Facsimile: 01223 552553