

# **Business Studies**

Advanced Subsidiary GCE

Unit **F292**: Business Functions

## **Mark Scheme for January 2013**

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This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which marks were awarded by examiners. It does not indicate the details of the discussions which took place at an examiners' meeting before marking commenced.

All examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes should be read in conjunction with the published question papers and the report on the examination.

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## Annotations

Annotation	Meaning
	Correct
	Incorrect
	Not sure what the candidate is trying to say or it does not make sense. It can also be used with a level descriptor when considering BOD
	Benefit of doubt given
	Levels of response awarded at this point
	
	
	
	Own figure rule
	Too vague
	Not answered the question
	Not used the context (generic)
	Repetition. The candidate has merely restated what has already been said and so no further credit given.
	The page has been seen. This can be used on pages where no other annotation is appropriate and MUST be placed on each blank page

**Subject-specific Marking Instructions**

Highlighting is also available to highlight any particular points on the script.

Please ensure that, wherever possible, annotations are placed in the margins and not over the candidate's answer. This makes it very difficult to read when the paper is printed out in black & white.

**[Only the following questions should be annotated with ticks to show where marks have been awarded in the body of the text: Question 1 & 2(a)]**

**IT IS VITAL THAT YOU SHOW AS MUCH ANNOTATION ON EACH PAGE AS POSSIBLE. IN PARTICULAR, WHERE LEVELS ARE REACHED.**

**EVERY PAGE, INCLUDING BLANK PAGES (use the SEEN annotation), MUST HAVE SOME ANNOTATION**

Question		Answer	Marks	Guidance
1	(a)	<p>Any TWO from:</p> <ul style="list-style-type: none"> <li>• greater profits/profit margin</li> <li>• increased sales/revenue/turnover</li> <li>• increased market share</li> <li>• better chance of survival</li> <li>• lower unit costs/higher productivity/economies of scale</li> <li>• increases capacity</li> <li>• spreads risks</li> <li>• improves customer/brand awareness</li> <li>• allows the firm to dictate price more</li> <li>• increased power over suppliers</li> </ul>	2	<p>One mark for each of two correct identifications.</p> <p>Make sure that the 2 benefits are clearly different.</p> <p>Allow two correctly named economies of scale. (If one answer is a named economy of scale then do not reward lower unit costs for the second).</p>
	(b)	<p>Possible answers:</p> <ul style="list-style-type: none"> <li>• payback method</li> <li>• ARR (Average/Accounting rate of return)</li> </ul>	2	<p>One mark for each of two correct identifications.</p> <p>Make sure that the 2 methods are different.</p> <p>Accept any correct methods (e.g. net present value/discounted cash flow/internal rate of return) even if they are not covered at AS.</p>
	(c)	<p>Ensuring that products are available to consumers in a format and at a time that they want.</p>	2	<p>Only a definition is needed, it is not necessary to provide an explanation.</p> <p><b>2 marks</b> – a good idea of the term with some reference to the channel or method of getting a product to the consumer.</p> <p><b>1 mark</b> – place is about distribution of the product or where it is sold.</p>
	(d)	<p>Sales revenue variance = 180 (1)</p> <p>Labour costs actual = 3,790 (1)</p> <p>Rent variance = Adverse (1)</p> <p>Other costs forecast = 600 (1)</p>	4	<p>One mark for each correct identification, up to a maximum of four identifications.</p> <p>These are the <b>only</b> acceptable answers.</p> <p>Each mark is awarded independently.</p>

Question	Answer	Marks	Guidance
(e)	<ul style="list-style-type: none"> <li>• Managers will have more time to carry out their own functional responsibilities – this may lead to better decisions being made</li> <li>• Communication within each level may improve – as there are fewer people in direct contact</li> <li>• More promotional opportunities are created - that may act as a motivator for staff and/or help staff retention.</li> <li>• Motivation could be improved - as employees (including managers) may have more responsibilities.</li> <li>• Decision-making may be quicker – as fewer people are involved in the process.</li> <li>• Productivity/efficiency may increase – as closer supervision is possible.</li> </ul>	4	<p>One mark for each correct identification, up to a maximum of two identifications plus a further one mark for each of two explanations.</p> <p>Look for the advantage (1 mark) along with a brief explanation or example (1 mark).</p> <p>Ensure that the two advantages are different.</p>
(f)	<p><u>Advantages</u></p> <ul style="list-style-type: none"> <li>• It allows a firm to observe good practice elsewhere – so that the firm can improve its own systems/procedures</li> <li>• It sets clear and attainable targets – which can help the firm to make improvements / motivate workers to improve quality.</li> <li>• Costs and wastage can be reduced – by identifying how other firms do it better</li> </ul> <p><u>Disadvantages</u></p> <ul style="list-style-type: none"> <li>• Accurate data may be tricky to obtain – this may lead to incorrect benchmarks being set which will not benefit the business</li> <li>• May lead to just copying another firm – reduces the chance of becoming a leader/innovator</li> <li>• Can be very expensive <b>to implement</b> – the advantages must be sufficient to justify the expense.</li> </ul>	4	<p>One mark for each correct identification up to a maximum of two identifications plus a further one mark for each of two developments.</p> <p>Look for the naming of the consequence (1 mark) along with a brief explanation or example (1 mark).</p> <p>Maximum of two marks if <b>two</b> advantages or <b>two</b> disadvantages are given.</p>

Question		Answer	Marks	Guidance
		<ul style="list-style-type: none"> <li>It may not work - as circumstances vary between firms.</li> <li>If targets are unattainable / unrealistic / consistently missed – may demotivate workers and impact negatively on quality</li> </ul>		
2	(a)	<p> <math display="block">\text{PED} = \frac{\% \text{ change in demand}}{\% \text{ change in price}} \quad [1]</math> </p> <p> <math display="block">= \frac{108/900}{1.5/10} = \frac{0.12 (12\%)}{0.15 (15\%)} \quad [1]</math> </p> <p> <math display="block">= (-) \underline{0.8} \quad [1]</math> </p> <p>Alternative method</p> <p> <math display="block">\text{PED} = \frac{10}{900} * \frac{108}{1.5} = (-) \underline{0.8}</math> </p> <p>Alternative method (arc PED)</p> <p> <math display="block">\text{PED} = \frac{108/954}{1.5/9.25} = \frac{0.113}{0.162}</math> </p> <p> <math display="block">= (-) \underline{0.7} (1\text{dp})</math> </p> <p style="text-align: right;"><b>OFR</b></p>	4	<p>Up to four marks.</p> <p>An answer of 0.8 or 0.7 with no working gains full marks (ignore sign).</p> <p><u>General guideline for marking</u></p> <p>Correct formula stated or implied only = 1</p> <p>Correct calculation of % change in demand = 1</p> <p>Correct calculation of % change in price = 1</p> <p>Divides %change in demand by % change in price (even if both figures are wrong) = 2 (OFR).</p> <p>An answer with any units (eg £ or %) scores a maximum of three marks.</p> <p><i>Accept an answer of 0.672 where the candidate has reduced the increase in customers by 16% (the churn rate).</i></p> <p>Calculating the PED for any other region - maximum one mark for the correct formula.</p>

Question		Answer	Marks	Guidance	
				Content	Levels of response
	(b)	<p>Pricing strategies can be cost-based, market-based or competition-based. Ray has stated that he is happy to use profits from the corporate market in the short-run, but eventually the private home market needs to be profitable. Possible options include:</p> <p><u>Promotional pricing</u>: this is what was tried in July in four regions of the country. However, this is usually for only a short period of time and then prices are increased to the full price. We do not yet know how many of the new customers gained in July will drop out once prices return to 'normal levels'. In two areas up to a fifth of the new customers have cancelled their contracts even before the three months are up.</p> <p><u>Price discrimination</u>: there is evidence in Table 3 that each of the four regions are quite different. PED in Yorkshire is 0.8 (OFR), 1.4 in South-East, 2.2 in North-West &amp; 0.9 in West Midlands. This suggests that a different approach to pricing would work. Lower prices in the South-East and North-West will have a significant effect on total revenue, whereas this is less of a good idea in Yorkshire and W. Midlands. HHL needs to look at its PED in all of its regions and then determine an appropriate pricing policy for that region. In addition, the churn rate shown in Table 3 suggests that some regions are more responsive to lower prices in the long-run. Maybe this is a sign of higher demand present in these regions and the</p>	16	<p>A candidate who simply talks about different pricing strategies with no link to HHL can only be rewarded at Level 2.</p> <p>Answers which ONLY refer to promotional pricing (what HHL have already done) should be kept towards the bottom end of any level</p> <p>Reward answers at L3 or above which make a clear <u>link</u> between choice of pricing strategy and HHL's growth targets.</p> <p>The question refers to strategies to help HHL achieve both growth and profit objectives. Answers which clearly show this should be awarded towards the top end of L3 <u>as a minimum</u>.</p>	<p><b>Level 4 (16–12 marks)</b> Some evaluation shown by making a justified judgement about which pricing strategy(s) is best or how likely it may work in the circumstances that HHL is in.</p> <p><b>Level 3 (11–7 marks)</b> Some analysis of suitable pricing strategies in the context of HHL's situation.</p> <p><b>Level 2 (6–3 marks)</b> Some understanding shown of different pricing strategies, without any attempt to discuss the context of HHL.</p> <p><b>Level 1 (2–1 marks)</b> Some knowledge of pricing strategies.</p>

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			<p>reason that they were not customers before was because they did not know about the product.</p> <p><u>Going-rate pricing</u>: allied to price discrimination, HHL could look at what any competitors are charging and respond to local fluctuations in price.</p> <p><u>Cost-plus pricing</u>: this is vital to HHL in the long-run if it is to make the private home market profitable. Given that HHL is a national company but working out of only four regional bases, some customers will be more expensive to supply than others (due to distance travelled). However, given the fact most of HHL's costs are direct costs, contribution pricing may be more appropriate.</p> <p>Pricing strategies such as skimming and loss leading are not appropriate to the situation that HHL is in.</p> <p>Better answers may recognise that HHL needs to adopt different pricing strategies in the short-run and long-run. This might mean that promotional pricing is the key in the short-run to attract business, particularly if HHL is to achieve its huge planned growth targets. However, cost-plus (or contribution pricing) is key in the long-run to ensure that the private market becomes profitable</p> <p>Answers may also recognise that a pricing strategy on its own will not work and some promotional strategies will be needed as well.</p>			

Question		Answer	Marks	Guidance	
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3		<p>A number of stakeholders could be mentioned, including:</p> <p><b>Managers/Owners</b> They can monitor the progress of the business. Turnover has increased by nearly 9% and gross profit by 21 %. However, operating profit has fallen by 2.5% which suggests that expenses have been allowed to rise disproportionately. This may have been due to extra promotional activity or the improvements made to the Ebbsfleet depot so may be expected. They can also monitor cash-flow, in particular debtors. There is evidence that this has increased by 16% in the last year so maybe management needs to reduce credit terms or chase up debtors quicker. However, this may be seen as a natural consequence of growth given the large number of corporate customers which HHL has. Reference may be made to the negative working capital, although for such a cash-rich company as HHL it should not really be a problem.</p> <p><b>Employees</b> They can see the profit situation and whether their jobs are safe or more pay may be possible. With the rise in turnover they may feel more secure and expect a higher pay package. Alternatively they could look at the rising expenses and suspect that the managers are taking excessive pay increases (especially given recent pay freezes).</p>	16	<p>A minimum of <b>two</b> stakeholders need to be considered to allow a candidate to reach the top of any level.</p> <p>Unsupported comments should not be rewarded above Level 2.</p> <p>Accounting ratios are not required at any level (but should be rewarded appropriately if used).</p> <p>Better answers may recognise the limitations shown from looking at just one set of accounts with no firms or other contextual evidence to compare.</p>	<p><b>Level 4 (16–12 marks)</b> Some evaluation shown of how useful the accounts are for specified stakeholder(s) of HHL.</p> <p><b>Level 3 (11–7 marks)</b> Some analysis shown of how specified stakeholder(s) could benefit from looking at HHL's accounts with some reference to the actual data in Tables 4 &amp; 5.</p> <p><b>Level 2 (6–3 marks)</b> Some understanding of what stakeholder(s) can learn from final accounts and/or what they can show, without any use of relevant context.</p> <p><b>Level 1 (2–1 marks)</b> Some knowledge of final accounts.</p>

Question			Answer	Marks	Guidance	
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			<p><b>Suppliers</b> They may be concerned about the high (and rising) creditor levels. They may worry about getting paid on time or at all if HHL gets into financial problems.</p> <p><b>Banks/Lenders</b> The good profit levels and relatively very low long-term liabilities may make HHL an attractive business in which to invest.</p>			
4			<p>One of the main consequences of rising labour turnover is rising costs linked to recruitment and selection. Given Ray's desire to increase net profit margins, it will be difficult given the additional costs which will be necessary, particularly at the Birmingham and Ebbsfleet depots.</p> <p>High labour turnover can also mean that while new staff are being recruited or getting used to their new job, other workers are put under more pressure to work longer hours or more quickly. In the former case this will also lead to higher costs for HHL and in the latter there may be a reduction in the quality of customer service, which may impact on HHL's growth plans and policy of serving customers within three working days.</p> <p>As more and more staff leave, it will be harder to replace them with suitable replacements, especially if the local labour market is experiencing growth. This may be particularly difficult at Birmingham and Ebbsfleet, as the</p>	16	<p>A Level 3 or 4 answer needs to contain a link to how any changes in labour turnover have or may affect HHL's future operation/success.</p>	<p><b>Level 4 (16–12 marks)</b> Some evaluation shown of whether labour turnover trends will affect HHL in the specific circumstances that it faces.</p> <p><b>Level 3 (11–7 marks)</b> Some analysis of how the actual labour turnover trends shown in Table 6 may affect the future plans/success of HHL.</p> <p><b>Level 2 (6–3 marks)</b> Some understanding shown of how labour turnover can be an issue for a business, with no reference to the context of HHL.</p> <p><b>Level 1 (2–1 marks)</b> Some knowledge of labour turnover.</p>

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			<p>pay rates are below the local average. A consequence of this is that HHL may need to increase wage rates to attract more staff which will add to costs and reduce profit margins. However, with the current policy of pay being set nationally at HHL it will also lead to higher wages at the other two depots (which may be seen to be unnecessary).</p> <p>If the problems at the Ebbsfleet depot are linked to the recent changes there then if these were to be rolled out at the other three depots there could be significant problems on the horizon for HHL. There may even be problems being stored up at the Leeds depot. With such a low labour turnover rate there may be concerns about an ageing workforce and a lack of new, keen and innovative workers with the associated benefits.</p>		<p>Answers which focus on how HHL could solve the problem of rising labour turnover (although not answering the correct question) may still be rewardable if there is an implicit or explicit link to the consequences to HHL of the problem.</p>	

Question		Answer	Marks	Guidance	
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5*		<p>Lean production is a collection of techniques which help to minimise waste in a business, defined in terms of cost, time and quality. It can include concepts such as Kaizen, cell production, just-in-time and TQM.</p> <p>The more obvious suggestions include:</p> <p><b>Cell production:</b> Helen wants to introduce more team working, which could be done in cells. This would provide the chance for greater motivation and self control of the workers which may help with labour turnover problems as we are told that there are few, if any, motivators at HHL. However, there is evidence that more room will need to be created which may cause further problems linked with change which has already been experienced at the Ebbsfleet site. Ray considers himself to be a Theory Y manager which may mean that the staff will be happy and used to the extra responsibility which comes with cell production, but that assumes that Ray is correct about his workers!</p> <p><b>Just-in-time:</b> HHL does not appear to have a problem with stock in terms of money (stock values are quite low in the balance sheet) but it appears to be more of a space issue given the bulkiness of the water bottles. Introducing JIT will certainly lead to lower stock levels but will need careful planning in order to minimise problems. We are told that the water bottles come from Germany so there will be a lead time; but if the supplier is reliable the distances involved should not be an insurmountable</p>	20	<p><b>Do not forget that this question is marked out of 20</b></p> <p>Answers that focus on physical production methods (job, batch, flow) are not answering the question.</p> <p>An answer which just lists <u>and</u> explains different lean techniques can achieve Level 2 at best.</p> <p>An answer that incorporates more than one lean production technique should always be rewarded at or above the default mark.</p> <p>Allow a 'liberal' interpretation of efficiency and any references to it.</p>	<p><b>Level 4 (20–15 marks)</b> Some evaluation shown by making a justified judgement about whether lean production will benefit HHL's efficiency.</p> <p><i>Complex ideas have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured, using appropriate technical terminology. There may be few, if any, errors of spelling, punctuation and grammar.</i></p> <p><b>Level 3 (14–9 marks)</b> Some analysis of how lean production techniques could help HHL's efficiency, with specific reference to the context available.</p> <p><i>Relatively straight forward ideas have been expressed with some clarity and fluency. Arguments are generally relevant, though may stray from the point of the question. There will be some errors of spelling, punctuation and grammar, but these are unlikely to be intrusive or obscure meaning.</i></p> <p><b>Level 2 (8–4 marks)</b> Some understanding shown of lean production techniques, with no reference to the issues facing HHL.</p>

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			<p>problem. Equally, the fact that the cooler manufacturers are UK based should not cause a problem. In fact, it could be asked why HHL even stocks the machines. Could it not have a virtual stock (i.e. have them delivered to customers direct from the manufacturer)? The new IT software should help with the planning, and once customer requests are entered directly into the system, it should be even more efficient.</p> <p>There are two obvious areas where lean techniques could impact on HHL's efficiency. First, it will help to improve working capital, as stock levels will fall which will also lead to lower creditors and possibly lower debtors as well. Both of these will help to improve net current assets.</p> <p>Second, lean techniques should mean that HHL is better able to achieve its target for customer service. There is evidence that Ebbsfleet is now much more efficient than the other three sites; although it may be more difficult to achieve similar levels at the other sites which may each serve a much wider geographical area.</p>			<p>Poor QWC cannot prevent a candidate from accessing any level, but within any individual level QWC can affect, by up to two marks in either direction, the final mark given</p>	<p><i>Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling, punctuation and grammar of which some may be noticeable and intrusive.</i></p> <p><b>Level 1 (3–1 marks)</b> Some knowledge of lean production techniques.</p> <p><i>Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar which will be noticeable and intrusive. Writing may also lack legibility.</i></p>

Question			Answer	Marks	Guidance	
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			<p>Better answers may recognise that:</p> <ul style="list-style-type: none"> <li>• the issues of cell production and JIT are inextricably linked due to the space issue</li> <li>• just because something works at the Ebbsfleet site it may not work at the other three sites (although it may be helped by Helen spending time helping the other sites to make the change)</li> <li>• there is a short-term cost which will have an effect on profit margins, although it will hopefully lead to long-term benefits (but is the five year period which Ray has set for higher net profit margins long enough?)</li> </ul>			

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