

Business Studies

General Certificate of Secondary Education **J253**

OCR Report to Centres

June 2013

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

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

OCR will not enter into any discussion or correspondence in connection with this report.

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CONTENTS

General Certificate of Secondary Education

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OCR REPORT TO CENTRES

Content	Page
Overview	1
A291 Marketing and Enterprise	2
A292 Business and People	5
A293 Production, Finance and the External Business Environment	10

Overview

The overall performance of the candidates was much in line with previous years, with examples of excellent work from those candidates who had been well prepared for the three assessments.

It is worth noting once again that each of the assessments focuses mainly on a different assessment objective (AO). For unit A291, application (AO2) has the greatest number of marks. For A292, the focus is on AO1, knowledge and understanding. Unit A293 centres upon AO3, analysis and evaluation. This is not to say that the other AOs are not important in each assessment; it is just that the candidates must understand clearly that there is this difference in emphasis.

On unit A291, some candidates, at times, did not fully apply their often good knowledge and understanding to the scenario, which resulted in marks being reduced. In preparing candidates for this assessment, it is vital that the pre-release material is fully understood and, more importantly, the impact of the information on possible marketing decisions should be prepared thoroughly.

On unit A292 there was a range of ability shown among the cohort, again reflecting the difference in those re-taking the examination and those year 11 candidates taking it for the first time. Gaps in knowledge were apparent in those elements of the specification identified in the unit's report, which had a clear effect on performance. The more extended writing questions, with analysis and evaluation at the higher mark levels, served again to differentiate candidates.

Analysis and evaluation is at the heart of unit A293 which uses the pre-release case study as a focus. As on unit A291, the understanding of the pre-release material is vital for higher level performance. On unit A293 the more able candidates used the fact that Bowton was a regeneration area in their responses on social costs and benefits. This clearly had an impact on decision making. In the same way on unit A291, the candidates recognised that as Zetagym was a large profitable company this would affect its marketing decisions, or that Josh was young, with restricted capital who wanted to open a new, small business.

There are examples in the individual unit reports of how candidates might improve their analysis and evaluation marks (AO3). The examples given could help candidates gain higher marks on the controlled assessment, and also to score more highly on the levels of response questions in A292 and A293. It is important in all cases that the judgements/recommendations being made are supported by clear analysis. Reasons should always be given as to why one course of action is preferable to another, or why certain actions will have more impact than others.

A291 Marketing and Enterprise

The overall standard of the work seen this series was broadly in line with other years, although slightly lower than the January 2013 series. As in January, the principal issues revolved around the application of knowledge and understanding to the scenarios given to the candidates.

The two scenarios available were a marked contrast. Candidates were told that Zetagym was a large (65 gyms nationwide) business which was very profitable. Josh, by comparison, was a 25 year old who wanted to set up a new business on his own selling sportswear and equipment. Candidates, especially at the higher level, must appreciate how these details will affect the marketing decisions which they are about to make and explain how, for example, Josh, in his particular position, should view potential promotional activity. In many cases the responses were generic; for example, stating that Josh might advertise on social media as a lot of people used it. While this is not wrong, the same could be said for many businesses. The fact that candidates were told that Josh was mainly targeting the 18-30 age group (frequent users of social media) should have been used to help justify the choice.

Market research in Investigations 2 and 3 was rather variable, with some candidates using well targeted questionnaires and effective secondary data and others only referring briefly to secondary data. It is important for AO3 that sufficient and meaningful data is collected in order that analysis and evaluation can take place.

Application of the Assessment Criteria

AO1

As in previous years, this assessment objective was a relative strength of the work seen. Starting an investigation with the knowledge base is good practice, especially for weaker candidates. It is important that *understanding* is shown throughout the work. At times brief, but accurate, definitions were over rewarded by centres. Candidates should look to explain how, for example, pricing strategies might work, including the provision of examples within the context of the scenario.

All the knowledge elements within the two scenarios were covered equally well. There was no identifiable general weakness or lack of understanding in any section of the work.

AO2

This assessment objective continues to differentiate between candidates and remains one of the principal reasons for centre marks being reduced.

As stated in the introduction, the key to this element within the assessment is to recognise the circumstances of the business and understand how it will impact on marketing decisions. Many candidates did not use the fact that Zetagym was already an established, nationwide business, or that it was very profitable. In Investigation 2 on Zetagym, many candidates showed a good knowledge of pricing strategies, but failed to explain how they might or might not be applicable to Zetagym, given the details which they had on the business. For example, would Zetagym have to use penetration pricing if it was a well-known brand? Given the fact it is very profitable could it use penetration pricing for a longer period in order to gain local market share? In Investigation 3, many candidates recognised that setting up an Internet operation for sales would be expensive. Few candidates recognised that this would be no problem for Zetagym as it was very profitable.

In the case of Josh, in Investigation 2 candidates were required to look at the market research which he should undertake. Given the fact that Josh had worked in the fitness market for seven years, he would no doubt have many contacts in the business which could have been used to set up a small but well informed focus group. He possibly lacked large financial backing (not able

to set up his own gym) and so would be restricted as to what methods of research he could afford. This should have been emphasised throughout the work. In Investigation 3, candidates looked at the promotional activities which Josh might use. Here the *local* context should have been used, coupled with methods which Josh could afford. In many instances candidates recommended methods which a business such as Josh's simply could not afford. Better examples seen were ideas for sponsoring a *local* football team, emphasising the sporting link and being within financial constraints. Few candidates used Josh's experience in their discussions on promotional activity.

It is important that able candidates do not simply use generic examples in their work. For example, Josh should advertise in the local (free) newspaper because a lot of local people read it or Zetagym could use psychological pricing because many people think that £39.99 is much cheaper than £40. Both these examples mention the business concerned. Whilst these statements are true, they do not explain why Josh, or Zetagym, *in their particular circumstances*, should use these particular methods.

As this assessment objective carries 24 marks out of the 60 available, it is vital that candidates aiming for the higher grades ensure that they apply their knowledge to the context of the scenario which they are investigating.

A03

The quality of the analysis and evaluation begins with the quality of the data collected. There were some examples of well targeted questionnaire work, while in other instances candidates displayed a lack of appreciation of how to devise a questionnaire which would help them in their work.

In the case of Zetagym, data was required in Investigation 2 on local opinion regarding pricing. Care should be taken here to distinguish between the price charged and a pricing strategy. For example, a question such as 'How much do you pay for your gym membership?' will do little to lead to a recommendation on a particular pricing strategy. However, a question such as 'Would you pay more for a new gym in the area which offered superior facilities?' would lead to data on whether or not skimming might be recommended. In Investigation 3, many candidates failed to gather local primary data on whether the new extreme fitness and weight loss programmes would be worthwhile for the business. Without this data it would be difficult to make a well justified recommendation.

Good local data on the prices charged by local gyms was collected by many candidates, but few failed to explain whether that data showed that there was evidence of competitor, penetration or other pricing strategies.

For Josh, Investigation 2 required data on how local people would view different market research. Would they, for example, be willing to take part in interviews (on the street/at home), would they join a consumer panel without pay (to fit Josh's financial position), would they return a questionnaire if one was left with them? This would have provided local data for analysis and use in any subsequent recommendations. Many candidates answered this investigation based purely on their own knowledge and understanding of market research techniques. Whilst this understanding is clearly required, on its own it fails to recognise the *local* aspect emphasised within the investigation.

In Investigation 3, candidates needed to collect data on local reaction to different promotional methods. In a similar approach to Investigation 2, opinion is required on different advertising methods which would be applicable to Josh. In this instance there is little point in asking local people where they see advertising most and have television as an optional answer. The aim, at this stage, should be to focus on what is applicable in the particular circumstances of Josh. This investigation was completed to a higher standard than Investigation 2, with many candidates showing an appreciation of advertising methods in particular, making sensible recommendations based on good primary and secondary data.

For higher level marks, candidates should look to use the detail from the analysed data in their recommendations, using figures/percentages to help accurately justify the ideas which they are putting forward.

In Investigation 2 for Zetagym and 3 for Josh, the candidates were required to explain how the pricing (Zetagym) or promotion (Josh) would change over time. Whilst this was completed well by many candidates, a number failed to address this part of the work and others dismissed the instruction in a sentence of work. Care should be taken to explain how and why the particular strategy might change in the future.

Administration

Centres are reminded that entry option 1 is for the OCR repository where the sample of work for moderation is uploaded digitally, and option 2 is for postal moderation.

This assessment will not now be available in a January series. All entries should be made for the terminal June series, with marks being with OCR and the work available to moderators by 15 May in the relevant exam series.

A292 Business and People

General comments

The entry for this series consisted of many Year 11 candidates retaking the unit and those taking the examination for the first time. As a consequence, the standard of the scripts varied markedly.

Some candidates displayed an excellent knowledge of the specification content and many outstanding scripts were seen. However, there were other scripts which displayed major gaps in knowledge and understanding, and it seemed apparent that some candidates were not well prepared. Aspects which caused difficulty related to questions 1(d)(i), 2(a)(ii), 2(c)(ii) and 2(e). These surprisingly tended to be knowledge based, e.g., how the Human Resources area impacts on business, the meaning of the term 'continuity', and the reasons for the decline in secondary sector employment.

As expected, only the more able candidates could fully analyse and evaluate. These candidates provided good responses to questions 1(d)(ii) and 2(e). These questions were targeted at the higher end of the ability range and, as such, differentiated between the candidates.

Comments on individual questions

- 1 a i** This part of the question was well answered. The majority of the candidates (about five sixths) could obtain the mark on offer by correctly selecting 'A social enterprise has ethical values central to its business practices'.
- ii** This part of the question was satisfactorily answered with less than half of the candidates obtaining two or more of the four marks on offer. Many candidates did not link Goodchilds to the 'tertiary sector'. As a consequence, the candidates often gave general answers such as 'depends on other businesses to create competition which makes the business more efficient'. These responses were not rewarded.

Correct responses were rare but did include 'Goodchilds sells the bananas to supermarkets which sell them to the public and, therefore, it needs businesses in the same sector in order to make money. It also needs bananas from businesses in the primary sector, which is a different sector to Goodchilds, in order to have some products to sell and to make money'.

- b i** This part of the question was well answered. Nearly all of the candidates could obtain at least one of the two marks on offer. The difficulty for many candidates was that they knew a relevant objective but were not able to link it to Goodchilds' type of business – namely a social enterprise.

Correct responses included 'Maximise profits, therefore, paying a decent amount to the farmers in less developed areas which grew the bananas'.

- ii** This part of the question was well answered. About five sixths of the candidates obtained at least one of the two marks on offer by explaining one objective of a public limited company. Correct responses included 'To provide an excellent service, therefore, to increase sales' and 'To grow, therefore, giving shareholders a better return'.

- c**
- i** This part of the question was well answered. Nearly all of the candidates obtained the three marks on offer by correctly stating whether the examples provided were ‘internal communication’ or ‘external communication’.
 - ii** This part of the question was well answered. Over three quarters of the candidates were able to achieve at least two of the four marks on offer by explaining how poor communication with its customers may impact on Goodchilds. Reasons for candidates not accessing marks tended to be linked to repetition or a failure to explain the ‘effect’ in terms of Goodchilds. Correct responses included ‘Customers may not know of Goodchilds’ products and, therefore, will not buy which means lower sales’. Also, ‘Customers may not know of any offers which could lead to lower sales’.
- d**
- i** This part of the question was poorly answered. Half of the candidates did not understand the meaning of a ‘Human Resources’ functional area. Incorrect answers included reference to the ‘Marketing of the products’, and ‘Monitoring the quality of the products’.
- Correct responses were rare but did include those outlined in the mark scheme namely ‘the Human Resources department deals with recruitment and selection in order to provide the business with the best workers’.
- ii** This part of the question was well answered with nearly all of the candidates obtaining at least Level 2 by explaining an advantage/disadvantage of external recruitment and relating this to the stated business. The more able candidates could analyse and provide a reasoned judgement.
- An example of a good response included ‘I think Goodchilds should recruit from outside the business as you will have many potential external candidates and these will bring new, and better ideas which is great for a Marketing Manager position as he/she will need to be forward thinking. It is also most likely that they will be experienced, whereas recruiting an internal worker may not. However, external recruitment will be more expensive as you need to place advertisements in the (local) press/magazines, and it takes much time to go through all the applications. On balance, I think Goodchilds should use the external method as a Marketing Manager post is of high importance and crucial to increasing sales/profits of a business’.
- e**
- i** This part of the question was well answered. Approximately three quarters of the candidates obtained one of two marks on offer with nearly half of them obtaining both marks for explaining an advantage of ‘on-the-job training.’
- A correct response included ‘Cheaper than paying an external training company to train the workers at a different site’. Incorrect responses tended to centre on the advantages of ‘off-the-job’ training or candidates simply had no idea of the phrase ‘on-the-job training’.
- ii** This part of the question was well answered with over three quarters of the candidates obtaining at least two of the four marks on offer by explaining two reasons why ‘new’ employees need training. Answers referencing both specific job training and induction training were awarded. The quality of the explanations tended to be the reason why candidates lost marks.

Correct responses included 'To be taught how to do their job effectively, therefore, minimising waste', 'Employees know health and safety procedures, therefore, less chance of injury' and 'To be more accustomed with their new surroundings, therefore, being more productive'.

- 2 a**
- i** This part of the question was well answered with approximately three quarters of the candidates able to correctly select a feature of a private limited company namely 'The owners have limited liability'.
 - ii** This part of the question was poorly answered with about three quarters of the candidates not obtaining any of the two marks on offer. It seemed apparent many candidates had not covered the term 'continuity', despite it being in the Teachers' Handbook guidance notes. Rare correct responses included 'Continuity means that if one of the owners dies then the business will still carry on'.
 - iii** This part of the question was satisfactorily answered. Approximately two thirds of the candidates could obtain at least one of the two marks on offer. However, as with the previous question, it seemed apparent that some candidates had not learnt the phrase 'allocation of profit', despite it being in the Teachers' Handbook guidance notes. Correct responses included 'To reinvest into the business to make the business more competitive'.
 - iv** This part of the question was well answered with about five sixths of the candidates able to obtain at least one of the two marks on offer. Over a third of the candidates achieved both marks by explaining why businesses exist. Correct responses included 'Stones Ltd exists as it provides goods to meet the needs of the public/society'.
- b** This question was generally well answered. Most candidates could make an attempt to explain the conflict between providing an excellent service and maximising profit. About two thirds of the candidates obtained at least two of the three marks on offer.

Correct responses included 'To provide an excellent service may mean increasing training for workers so that they are able to provide the better service. This is likely to cost a lot of money which may mean a drop in profit'.

- c**
- i** This part of the question was well answered. Virtually all of the candidates could obtain the mark on offer by analysing the graph and correctly select the 'tertiary sector' as the sector which had the highest employment in 2012.
 - ii** This part of the question was satisfactorily answered. While over three quarters of the candidates obtained at least two of the four marks on offer only about one in five of them was able to achieve all four marks. In general, candidates could offer one reason for the fall in secondary sector employment but found difficulty in providing a second. Common incorrect responses included 'Secondary sector employment has gone down as tertiary sector employment has gone up', and 'Workers do not want to work in dirty factories anymore'.

Common correct responses included 'Wages are too high in the UK, therefore, businesses have moved away and gone to cheaper countries', and 'UK businesses are using machines more than ever, therefore, there is no need to employ as many workers'.

- d** This was poorly answered. Approximately one third of the candidates could not offer an advantage or disadvantage to a company of using a 'piece rate' payment system. It seemed apparent that some candidates had not covered this element of the specification, despite it being in the Teachers' Handbook guidance notes.

Full mark responses included 'An advantage of paying employees a piece rate is that they work at a faster rate, as they receive more money the more kitchens they fit, therefore, possibly less workers are required which saves on labour costs'. Also, 'A disadvantage is that employees may rush to fit the kitchens as they receive more money the more they fit. This may mean that they rush their work which may lead to poorly fitted kitchens which can lead to a poor reputation and lower future sales'.

- e** This was poorly answered. Approximately a third of the candidates displayed no knowledge of the 'Working Time Directive' and did not achieve any of the four marks on offer. It was clear that this aspect of the specification had not been considered by some candidates despite it being in the Teachers' Handbook guidance notes.

Correct responses were rare, approximately one sixth of the cohort, but did include 'The Working Time Directive states that a business cannot make employees work more than 48 hours per week. This means that some kitchens may not be finished on time or the business needs to employ more employees which will increase costs'.

- f** This was well answered. Just over three quarters of the candidates obtained at least one of the two marks on offer by identifying one part of 'lifelong learning' – that is formal learning within the work or education environment. Few candidates obtained the second mark by referencing 'learning throughout their life' not just in a formal context. Some candidates clearly had not considered this topic within the specification, despite it being in the Teachers' Handbook guidance notes, as they did not attempt a response or just had a 'guess'.

Correct responses included 'Where employees are educated and trained not just in school or college but also the places where they have worked throughout their life'.

- g i** This part of the question was well answered. Approximately five sixths of the candidates obtained at least one of the two marks on offer by showing some understanding of the term 'bankruptcy'. The loss of the second mark centred on the candidates not realising that businesses which go bankrupt will have to stop trading.

Correct responses included 'Bankruptcy is when a business cannot repay the debts owed to its creditors, therefore, it ceases to trade'.

- ii** This part of the question was well answered. Approximately half of the candidates obtained each of the three marks on offer, and over three quarters of them obtained at least one mark by identifying at least one effect on the stated business of one of its suppliers closing.

Correct responses included 'Stones Ltd will have to find other suppliers to build its kitchens and thus it is most likely have to pay more because other suppliers such as Kitchen Units Ltd charge more than Delightful Kitchens Partners did for the same supplies'.

A293 Production, Finance and the External Business Environment

General comments

The examination was based on a pre-release case study. The context of the case study was a motor car company, AS plc, which manufactures expensive cars targeted to 'rich' people in the UK and abroad. In the case study, the story of AS plc was intended to reflect, to an extent, the current approach adopted by Jaguar/Land Rover. The business location was the fictional town of Bowton. The case study appeared to be accessible to the vast majority of the candidates and there were indications that many centres had prepared candidates in detail for anticipated questions. This led to a very good overall level of performance.

The examination was aimed at the full range of candidates – from grades 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 questions. Those designed to provide an opportunity for the higher grade candidates to display their abilities were open ended questions on which it was expected that the lower grade questions might gain some credit. These questions were marked using a levels of response mark scheme. Most candidates expressed themselves reasonably clearly. The use of and spelling of specialist terms was generally very good.

To support centres to raise standards further it is worth reflecting on those questions which are assessed using a 'levels of response' mark scheme. Level 1 is awarded for answers which show and apply knowledge to the business context. Given that this paper is based on a pre-release case study, most candidates automatically apply any knowledge which they have. Level 2 is for analysis. This is about developing knowledge and explaining implications or issues for a business. Level 3 is awarded for answers which evaluate in context. Evaluative questions require the candidates to make some kind of justified decision. The case study was written to highlight issues affecting AS plc or Bowton and it was against this background that candidates were expected to make their judgements.

Some candidates limited their achievement despite strong analysis by failing to evaluate at all. A common approach on such questions is to analyse the advantages and disadvantages and this leads to achievement at Level 2. It is not enough to achieve Level 3 simply to state, for example, that the benefits outweigh the costs or vice versa without any explanation or supporting analysis. Two examples will illustrate. Question 2(f) asked the candidates to consider whether the social benefits resulting from the construction of a new factory in Bowton by AS plc would outweigh the social costs. The case study indicated that Bowton is an area in need of regeneration. Candidates who scored well picked up on this point and were able to argue that economic priorities are likely be more important in these circumstances than environmental ones. The best responses also suggested that the extent to which employment would be created and the environment damaged would also need to be considered. Question 3(e) asked the candidates to recommend whether a loan or retained profits should be used to purchase the new technology in which AS plc was considering investing. One element in the case study on which a Level 3 answer was constructed was this current indebtedness of the company. Some candidates used this as a reason for suggesting that AS plc should use its profits so that it did not over-extend its borrowing, others used it to suggest that, because it was a profitable business, it would be managing the debt and interest payments well and banks would, therefore, be willing to lend to it. Another good approach was to suggest that the answer might depend on whether AS plc has sufficient retained profit or what would be the opportunity cost of using the profit. For the latter line of argument, some very good answers discussed the need for AS plc to use its profits to reward shareholders or to finance the cash flow problem indicated in the case study would arise from the investment.

Question 1

- a**
- i** This was a data interpretation question targeted at the lower end of the ability range and designed to encourage candidates to tackle the paper. Most candidates, though not all, were able to identify that China was the country in which AS plc made most profit in 2010.
 - ii** This part of the question was generally answered well. Candidates needed to identify the appropriate figures and then to apply their numeracy skills to add them correctly.
 - iii** This type of data interpretation question has figured frequently on previous examination papers. It differentiates well. Too many candidates, however, still focus on the change in percentage figures, rather than on recognising that they need to convert percentages into value terms. It is common to embolden key words, such as value, which are of particular importance on a question. This is designed to help the candidates to perform well. Candidates need to recognise this feature.
- b** This part of the question was generally answered well. The candidates focussed on how the economic growth in China was creating jobs, higher incomes and greater spending power, while the recession and slow growth in the UK were restricting the growth of domestic sales. A large number of candidates also picked up on the desire of the wealthier people in China to flaunt their wealth by buying the expensive cars sold by AS plc.
- c** As with part (a)(iii) many candidates failed to notice the stress in the question, in this case on calculating the **difference** in the price of AS models sold in the UK and China.
- d**
- i** Candidates needed detailed knowledge about the European Union (EU) in order to answer this part of the question. Many candidates displayed this knowledge.
 - ii** Good answers to this part of the question focussed on the competition that was likely to result from membership of the EU and the possible effect on sales, profitability and long-term survival. Another common line of argument related to the regulations imposed by the EU on employment and design and some answers were developed to highlight the impact on costs.
- e**
- i** The structuring of the question helped many candidates to perform well. A number gained the method mark only by identifying that multiplication by five was necessary, but did not then carry out the calculation accurately.
 - ii** Converting exchange rates has proved challenging for many candidates in previous examinations and it was, again, the case this series. Candidates were rewarded for identifying that the price AS plc had to pay for tyres from the Italian manufacturer, Agnelli Tyres, fell and then for providing the evidence. For this the candidates either wrote that the price fell to £80 or fell by £20.
- f** Candidates were able to identify a wide range of strategies which AS plc could adopt to deal with the rising costs of components in the EU. A very common answer suggested that AS plc should buy the components from businesses in countries outside the EU and which were then able to develop this point by stressing the need to compare inflation rates. Quite a number of candidates, however, suggested considering the UK as a source of components, wrongly believing that it is not an EU member. Other common arguments included reducing profit margins and raising prices, the latter being well justified by some candidates on the basis that customers for these expensive cars would not be sensitive to prices.

Question 2

- a**
- i** Many candidates were able to identify that flow production was appropriate in this situation. Some, however, struggled to give reasons why this choice was appropriate and focussed on describing the method of production. It is appropriate because, for example, the business is producing a large number of vehicles so it can produce this level of volume quickly and it leads to economies of large scale production.
 - ii** Many candidates were able to identify that batch production was appropriate in this situation. The candidates were generally better at developing their answers than for the previous part of this question. Justifications related to meeting the orders for different cars, reducing the need for stock and some very good answers linked this to the use of just-in-time stock control methods which had been mentioned in the case study.
- b** This part of the question was generally answered well.
- c** This part of the question was assessed using a 'levels of response' mark scheme. Candidates often scored well at Level 2. The question asked them to focus on how the competitive environment could be changed, the term 'competitive environment' having been lifted from the specification. To access Level 3 marks, the candidates needed to evaluate the change to the environment in context. Having stated strategies such as product development or reducing prices or increasing marketing or taking over or merging with a competitor, many candidates limited their evaluation in context to comments about it reducing competition. Only the most able candidates developed issues which would affect the extent to which the competitive environment would be changed. Good lines of development discussed, for example, the extent of price cutting or how large the competitor was with which the firm merged.
- d** This part of the question was answered well.
- e** There was a difference between the two sub-parts of this question which was not always recognised by the candidates. Part (i) required candidates to describe just-in-time, whereas part (ii) to explain a benefit and a problem of it.
- i** The better candidates focussed on ordering and the reduction in stocks needed.
 - ii** Candidates discussed cost saving because of the need for less warehousing and the potential for the disruption to production if stock, for whatever reason, was not delivered to deadline. Some candidates focussed on the possible loss of economies of scale though this is not necessarily the case if orders are made for large quantities in total but to be delivered at different times.
- f** There were some very good responses to this part of the question. Knowledge and analysis of the social costs and benefits of business activity is clearly a strength of many candidates. Benefits discussed related to jobs and local economic prosperity, including the multiplier effect. Costs discussed focussed on congestion and pollution. One line of argument related to the type of worker being employed and the fact that many of these would come from outside the local area because of the shortage of skills. Another related to the fact that the Bowton area is in need of regeneration. The most able candidates were able to develop one or other of these lines of argument as evaluation points in order to compare costs and benefits. For example, the benefit to an area in need of regeneration would depend partly on how many jobs were created for local people and the extent to which the workers coming from elsewhere would spend their earnings within the

local area. Candidates who developed these lines of discussion were able to achieve the higher marks within the Level 3 band.

Question 3

- a** This part of the question was generally answered well.
- b** The candidates displayed some very good knowledge and analytical skills in answering this question. For advantages of the new technology, candidates discussed increases in output and productivity leading to reductions in unit costs, increased quality and reduced wastage and the possibility of greater flexibility in production. As negatives, candidates discussed the investment cost and the need to recruit and train workers. Some candidates discussed the need to make workers redundant which is often a result of introducing new technology but then failed to recognise that as this was a new factory in Bowton no workers would need to be made redundant. At Level 3 the main focus of candidates' responses was on a comparison of the costs of introducing the new technology and the benefits which might result. The best answers related their discussion specifically to the context – how the use of new technology might give the business an advantage over competitors or related the technology to the production of precision-engineered engines for which this type of equipment would be essential.
- c** Many candidates failed to score the three marks available on this part of the question by confusing their examples of fixed and variable costs.
- d** There were some good discussions about why governments might be willing to give grants to AS plc. The most common line of response related to the creation of jobs in an area needing regeneration. There were also some very good responses explaining that the grant might be self-financing as it would generate tax revenue for the government from direct and indirect taxation.
- e** The best responses to this part of the question, as with all levels of response assessed questions, evaluated in the context of information presented in the case study. Candidates were generally aware of the issues relating to using loans and retained profits. One issue relating to using retained profit which was not highlighted very much was the cost of lost interest. This was not contrasted with the payment of interest on loans – an issue which was widely discussed. Candidates who achieved at Level 3, focussed on issues identified in the case study. For example, the potential cash flow issues, how much the investment would cost and the amount of retained profit available, and the existing debts of AS plc. Some very good responses involved current business environment issues such as interest rates and the possibility that these might increase.
- f** There were two main lines of response which the candidates could take. The first and most commonly used was that there would be a cash flow problems which would need financing and this might add to debt problems (especially if AS plc had financed the state-of-the-art technology using a loan). The second type of response took the view that the funding issue would only be temporary, assuming that the new engines led to sufficient sales.

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