

Business Studies

Advanced Subsidiary GCE

Unit **F292**: Business Functions

Mark Scheme for June 2012

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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

Abbreviations, annotations and conventions that are used in this Mark Scheme vary from paper to paper. The following annotations are available for this paper.

Annotation	Meaning
	Unclear
	Benefit of doubt, when added to a level indicator
	Wrong
	Level 1
	Level 2
	Level 3
	Level 4
	Not answered question
	No use of text (Generic)
	Own figure rule
	Repetition
	Noted but no credit given
	Too vague
	Correct- only used when levels of response are NOT used

Subject-specific Marking Instructions

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

Please ensure that 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 and white.

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	Mark	Guidance
1 (a)	Any TWO from: <ul style="list-style-type: none"> • Any reference to factory, office, building costs, such as rent • Interest payments • Taxation • Maintenance • Depreciation • Administration costs or examples of them (such as insurance or utilities) • Marketing costs • Salaries/wages of non-production staff • Audit fees • Loan repayment (but do not accept just 'loan') 	2	You should be looking for examples of costs that are not directly linked to production of the product 'Salaries' on its own is acceptable, whereas 'wages' on its own is not. Two marks can be awarded if there are two separate overheads listed within any individual answer space.
	(b) Any TWO from: <ul style="list-style-type: none"> • Public relations • Merchandising • Signage • Point of sale • Sponsorship/celebrity endorsement • Trade fairs/exhibitions • Personal selling • Direct mail • Leaflets • A firm's own website • Sales promotions such as BOGOF, discounts, competitions and introductory offers. 	2	Below the line promotion does not entail the use of independent media nor does it normally involve the payment of a fee to a marketing agency. Any form of promotion through a medium over which a business has no direct control is above the line and so <u>cannot</u> be rewarded.
	(c) 2 marks- The <u>proportion</u> of the workforce that leave a business within a given <u>period of time</u> 1 mark- as above, but either with no reference to <u>time period</u> or <u>proportion</u>	2	Only a definition is needed, it is not necessary to provide an explanation. Accept a correct formula as a definition (with a clear reference to time period) and award 2 marks An answer that <u>only</u> refers to staff leaving the business receives no reward

Question	Answer	Mark	Guidance
(d) i)	<p>Break-even = $\frac{\text{Fixed costs}}{\text{Unit Contribution}}$ [1]</p> <p>= $\frac{\text{£1,000}}{15-10}$ [1]</p> <p>= 200 [1]</p> <p><u>Alternative method</u></p> <p>Total costs – Total Revenue = profit</p> <p>TC = £(215 *10) +1000 = £3150 TR = 215 * 15 = £3225 Profit = £75 [2]</p> <p>@ £5 contribution this represents 75/5=15 shirts above breakeven. Therefore BE = 215 – 15 = 200 [1]</p> <p>OFR</p>	3	<p>Award 3 marks for correct answer (even with no working)</p> <p>Award 2 marks for £200 or any units other than output ('units' is acceptable for full marks)</p> <p>In the alternative method the mark for the formula is awarded, as implied, when there is evidence of the 'correct method'.</p> <p>However, an answer that only has evidence of the candidate calculating the TR – TC = £75 receives no reward at all <u>unless</u> there is evidence that this is part of an attempt to calculate break-even as part of the alternative method.</p>
	<p>ii) 215 - 200 = 15</p> <p>OFR</p>	1	<p>Own figure rule MUST be used here. Whatever the candidate gets as the answer to part i) should be subtracted from 215 to give the 'correct' answer</p> <p>DO NOT penalise units being wrong for a second time</p>
1 (e)	<ul style="list-style-type: none"> • Over supervision of staff- this may lead to workers feeling distrusted leading to poor motivation • Remote leaders- the leader rarely appears to be approachable so that workers do not raise any problems • Little chance for workers to use initiative- this discourages teamwork and can demotivate • Over dependence- workers are unable to think for themselves so little gets done if the leader is not around • Poor communication – only likely to be one way . • Poor decision making – experience of workers not used 	4	<p>2 x (1+1) marks</p> <p>Look for the actual disadvantage (1 mark) along with a brief explanation or example (1 mark). An explanation on its own can be rewarded (1 mark).</p> <p>Ensure that the two disadvantages are different, although the causes may be similar.</p>

Question		Answer	Mark	Guidance
		<ul style="list-style-type: none"> High labour turnover – as a result of demotivated staff 		Do not reward answers which refer to span of control as this is independent of the leadership style.
1	(f)	<ul style="list-style-type: none"> Inflexible production- can be more difficult to satisfy specific requirements of individual customers Poor worker motivation- the work can be monotonous and unskilled workers are used Problems of breakdowns- breakdowns and/or stock hold-ups can cause production delays due to the inter-connectivity of all stages of the production process High initial costs- high (and consistent) levels of production are needed to justify the capital investment Less worker responsibility- quality of finished work may be lower 	4	<p>2 x (1+1) marks</p> <p>Look for the actual disadvantage (1 mark) along with a brief explanation or example (1 mark) An explanation on its own can be rewarded (1 mark).</p> <p>Ensure the two disadvantages are different, although the causes may be similar.</p>
2	(a) i)	<p>The cost of the investment is £60,000 which will be achieved half way through year 4</p> <p>Answer = <u>3.5 years</u></p>	1	<p>Accept 3 years 6 months or 3.5 (no units)</p> <p>Accept an answer of 'halfway through year 4'</p> <p>Do not accept an answer of 3 years, 4 years or 'sometime in year 4'</p>
	ii)	$\text{ARR} = \frac{\text{Average annual profit}}{\text{Cost of investment}} * 100 \quad [1]$ $= \frac{(90,000-60,000)/5}{60,000} * 100 \quad [1]$ $= \underline{\underline{10\%}} \quad [1]$	3	<p>An answer of 10% with no working gains full marks</p> <p>Answer must be written as a percentage</p> <p><u>General guideline for marking</u></p> <p>Correct formula = 1</p> <p>Mathematical error from correct formula = 2</p> <p>Correct answer = 3</p>

Question	Answer	Mark	Guidance
	<p><i>Alternative method</i></p> $ARR = \frac{\text{Average net cash inflow}}{\text{Cost of investment}} * 100 \quad [1]$ $= \frac{90,000/5}{60,000} * 100 \quad [1]$ $= \underline{\underline{30\%}} \quad [1]$		<p>An answer of 30% with no working gains full marks</p> <p>A common mistake is to forget to divide by 5. This gives an answer of 50% (or 150% by alternative method) and can be awarded 2 marks as there are two OFRs.</p> <p>Another way of considering an answer is to look for what is basically a 3-step process- 1) calculate the net cash flow 2) divide by 5 years 3) divide by the initial cost & multiply by 100</p>

		Answer	Marks	Guidance	
				Content	Levels of response
2	b	<p>According to the quantitative targets set by Hamza (3 years payback & 12% ARR) it would appear that the investment in the new production line should not go ahead. However, this is a very simplistic view and ignores the other positive arguments for the project raised by Matthew & Izak. These <u>include</u>:</p> <ul style="list-style-type: none"> - Matthew is very excited about this project and appears to support it (come what may). As MD, his opinion is important and may override any financial evidence - The figures for payback & ARR are very close to the targets set by Hamza and so actually maybe the project should go ahead, especially as the ARR of 10(30)% is well above the current rate of interest and TSL's net profit margin of 5% - According to Table 1, the new line will lead to increases in GPM & NPM as well as well as output and worker productivity - It will allow TSL to accept larger orders like the one from the potential customer that has visited Penny recently - It will be possible to produce smaller size tins that will help Izak to achieve his objective of reducing the average age of the customer base and aid growth in general in future - The new line will help TSL to further increase its product portfolio - The increased competition (on price terms) that TSL are facing will need responding to. The new line will help, both in terms of cost and product range - Given such a large GPM, this investment should become cash positive very quickly. <p>However, Hamza says there are also 'human resource issues'. Have these been incorporated into the quantitative data and will it affect the motivation of the workforce (there is some evidence of unrest about the possibility of job deskilling, raised by Carl & Andrea in their discussions with</p>	16	<p>A candidate who just says that the targets have not been matched and so the project should not go ahead has NOT answered the question set. This sort of answer can only be rewarded at Level 2.</p> <p>Answers that use any of the vital items of contextual evidence to develop an argument MUST be rewarded at Level 3.</p> <p><u>Level 3 guidance</u> If the answer only analyses investment appraisal data, OR only other factors award 7, 8 or 9 marks</p> <p><u>Level 4</u> can ONLY be awarded if the answer makes a justified decision based on investment appraisal and at least one other factor from the preceding analysis.</p>	<p>Level 4: 16-12 marks Some evaluation shown by making a justified judgement about whether or not the new production line should be invested in.</p> <p>Level 3: 11-7 marks Some analysis of factors that TSL should consider when making a decision about the new production line.</p> <p>Level 2: 6-3 marks Some understanding shown of how investment appraisal can be used and/or factors that may be considered when making an investment decision, without any attempt to discuss the context of TSL.</p> <p>Level 1: 2-1 marks Some knowledge of investment appraisal.</p>

			Answer	Marks	Guidance	
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			<p>Matthew)? Will this affect the high quality product which is currently a major selling point? There is also the risk of potentially writing off the cost of the new line if the smaller tins do not sell. Izak’s view that small tins will attract younger customers could be questioned as there is no evidence of any market research being done on this particular issue.</p> <p>It could be argued that TSL might need to recognise that the qualitative factors override the quantitative factors. Maybe it could be argued that the investment appraisal targets are set too high, or due to potential error, the likely payback and ARR are close enough to the targets.</p> <p>Better answers may reach a decision based on prioritising the issues that have been highlighted. They may also suggest other evidence or work that needs to be completed first, such as carrying out market research to check on Izak’s opinion before proceeding to try and minimise any risk. (This means a decision has been made by the candidate- I need more information before making a decision).</p> <p style="text-align: right;">OFR</p>			

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			Content	Levels of response
3	<p>TSL relies on the quality of its products. It is therefore vital that it keeps up-to-date with the latest ideas and avoids anything that may affect quality. There is some evidence in the case study that with the increased competition and objective to sell to a younger market that quality will need to be improved. Quality initiatives <u>include</u>:</p> <ul style="list-style-type: none"> - ISO 9001: This is an international certification that ensures everything a business does is done so with the customer in mind. Clearly this will create a lot of extra work, especially for the managers, at a time when TSL are busy introducing new products and a new production line. There might be a concern that something may get neglected by the management if they are too busy so that quality may actually be damaged in the short-run - Benchmarking: monitoring best practice in the industry or internally might mean that TSL is able to better match expectations of its consumers. This may be difficult given TSL's position in the market. - Quality Circles: typically these involve workers and managers meeting to discuss work-related quality issues. This may help with the employees current concerns about not being consulted. However, this is quite a 'leap' for a firm that does not even have a HR manager at present. It may though help to correct the declining performance indicators, although it will affect productivity in the short-run. - TQM: an integrated approach to quality that attempts to 'build in' quality to the whole culture & operations of a business, such as communication, training, management, raw materials, etc. Given the traditional management style and the evidence in Appendix 2, this may be too big a challenge for TSL at present. - Kaizen: continuous improvement may be more appropriate for this firm given its currently strong position and the number of other changes it is involved in. 	16	<p>Candidates who suggest more basic ways to increase quality, such as quality control, quality assurance or improved raw materials can be rewarded and for L3/L4 it must be clear how this helps TSL.</p> <p>Candidates may recognise that the issues/problems elsewhere in the business (e.g. the apparent lack of support/communication between managers & staff shown in App.2) may mean that introducing any quality initiatives could be problematic. This is likely to be evaluative.</p> <p>Answers that recommend and justify the 'best' solution (e.g. Kaizen, as it is a SR solution and less costly and less in need of an HR department) should be awarded L4 as long as this decision is logical and based on the preceding analysis.</p>	<p>Level 4: 16-12 marks Some evaluation shown by assessing the appropriateness of methods to improve quality, relevant to the circumstances faced by TSL.</p> <p>Level 3: 11-7 marks Some analysis shown of appropriate methods to improve quality <u>and how they may help TSL to further improve quality.</u></p> <p>Level 2: 6-3 marks Some understanding of how quality can be improved, with no reference to the issues facing TSL.</p> <p>Level 1: 2-1 marks Some knowledge of different ways to improve quality.</p>

		Answer	Marks	Guidance	
				Content	Levels of response
4		<p>Market segmentation is the identification of specific groups from within a larger market, which can be targeted with marketing campaigns. It also allows TSL to offer products in a specific version to each different niche.</p> <p>In TSL's case, the business itself has broken down its customers into 6 segments (see Table 2). In addition, there is reference in the context to segmentation by age.</p> <p>There is quite a lot of evidence in the case study about the different segments. For example:</p> <ul style="list-style-type: none"> - Overseas sales to Japan are popular with younger customers due to the natural ingredients, the high prestige and the relatively low price - The sweets sold in the UK have an older audience (40-60) and appear to be popular for health (travel sickness) reasons - The imported sweets are popular with the exercise and health market - The chewy tubs that are more attractive to people in cars where the product can be held firmly in the cup holders. <p>Therefore, TSL need to use the knowledge it has of these different segments to focus on the right issues when developing its marketing mix in each different market. This will mean quality and natural goodness in Japan, health benefits for the standard UK sweets and packaging for the imported sweets.</p> <p>In particular, TSL will need to consider how it is to market the product to the desired younger audience in the UK. Izak already appears to have some research completed about this younger market (confirmed by the evidence about impulse buying and pricing). He now needs to ensure that this knowledge leads to specific differences in the marketing mix for each product that TSL sell.</p>	16	<p>There is clear reference to the concept of market segmentation in the case study that will hopefully be used by candidates. However, give some credit if there is only an implied discussion of segmentation and its usefulness.</p> <p>Candidates may approach this answer from a marketing mix perspective. This is perfectly acceptable.</p> <p>A Level 3 answer is likely to identify specific differences to TSL's approach to marketing of two or more of its products.</p>	<p>Level 4: 16-12 marks Some evaluation shown by taking a judgemental approach to the benefits of market segmentation in the specific circumstances that TSL face.</p> <p>Level 3: 11-7 marks Some analysis of the ways in which market segmentation can be beneficial to help increase TSL's output, with specific reference to issues facing TSL.</p> <p>Level 2: 6-3 marks Some understanding shown of how market segmentation methods can be used, with no reference to the issues facing TSL.</p> <p>Level 1: 2-1 marks Some knowledge about methods of market segmentation.</p>

	Answer	Marks	Guidance	
			Content	Levels of response
5*	<p>Non-financial motivation can include a wide range of suggestions, including empowerment, teamworking (cell production), job rotation, job enrichment and job enlargement.</p> <p>We know that there is rising automation at TSL, with more planned, the current employees are 'very loyal', there is no unionisation, the staff take great pride in their work, they are happy with their pay and quality is central to what TSL does. Table 3 suggests that labour turnover and absenteeism have recently increased significantly- is this a symptom of HR problems?</p> <p>The more obvious suggestions include: Greater empowerment- many of the quotes in Appendix 2 suggest that the staff are not allowed to think for themselves and there is a lack of management support. (It could even be argued that is there scope for one or more of the experienced workers to take on a supervisory role which may improve recognition, empowerment and manager unavailability all at once) Increased support of the workforce- although the firm employs about 50 staff, it is surprising that there is no dedicated HR manager. Although Matthew appears to fulfil this role, he is also the MD. This may give the impression to the workforce that they do not matter and management do not care about the workers' welfare (lack of Herzberg's recognition). An HR manager may also be someone that the workers can more easily and regularly go to with any grievances or concerns. Is a quick meeting once a month really appropriate for improving employee involvement and motivation? Improved communication- linked to the previous point but again a sign of lack of support/interest in the workers. It would also reduce the misinformation that Carl and Andrea</p>	20	<p>Do not forget that this question is marked out of 20</p> <p>DO NOT reward any reference to financial methods of motivation, unless they are given as a way of comparison with the importance of non-financial motivation when trying to evaluate.</p> <p>Any measure which directly affects the 'pay packet' should be regarded as financial. Anything else is not and is therefore acceptable, e.g. extra holiday, company car, pension, medical insurance, etc.</p> <p>A good source of context is Appendix 2 and answers which make reference to this evidence, and show how the chosen method will help TSL, should be awarded Level 3.</p>	<p>Level 4: 20-15 marks Some evaluation shown by making a justified judgement about whether suggested ideas of non-financial motivation will be appropriate in the circumstances that TSL face.</p> <p>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.</p> <p>Level 3: 14-9 marks Some analysis of how non-financial methods of motivation can benefit TSL, with specific reference to issues facing them.</p> <p>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</p>

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			<p>have about the plans for the new line</p> <p>Better worker participation/management / leadership- Matthew hints that his predecessors ran the company in a traditional (autocratic?) manner. More worker involvement, as well as being motivational (Herzberg/Mayo/ Maslow), is expected in a modern business</p> <p>Job enrichment/enlargement- give workers more responsibility or variety. The latter may be possible with the range of products being produced but the former may be difficult with the increased automation that has and will continue to happen.</p> <p>Organisational structure- evidence in Appendix 2 suggests a fairly flat structure / wide span of control. Making the structure narrower would create promotion opportunities for staff and may lead to improved motivation.</p> <p>Any other non financial methods can be accepted as long as they would prevent motivation from falling.</p> <p>Better answers may recognise that given Matthew’s plans, TSL cannot afford any problems with the workforce. He needs to get them more ‘on-board’ and involved in the company. This will increase the chances of the changes and projected growth being successful.</p>		<p>The key issue is that any suggestions (to advance to levels 3 and 4) must be relevant to the context we have available about TSL.</p> <p>Poor QWC cannot prevent a candidate from accessing any level, but within any individual level QWC can affect, by up to 2 marks (positively or negatively), the final mark given. However, consider the QWC expected within each level before making this decision.</p>	<p>and grammar, but these are unlikely to be intrusive or obscure meaning.</p> <p>Level 2: 8-4 marks Some understanding shown of how non-financial methods of motivation can be used, with no reference to the issues facing TSL.</p> <p>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.</p> <p>Level 1: 3-1 marks Some knowledge of non-financial methods of motivation.</p> <p>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.</p>

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