

Business Studies

Advanced GCE

Unit **F297**: Strategic Management

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

Annotation	Meaning
	Unclear
	Benefit of doubt
	Cross
	Level 1
	Level 2
	Level 3
	Level 4
	Not answered question
	No use of text
	Own figure rule
	Repetition
	Noted but no credit given
	Too vague
	Tick

Question		Answer	Marks	Guidance																																				
1	(a)	<p>Write your answers for Total Float in the table below</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th>Activity</th> <th>Duration</th> <th>Total Float</th> </tr> </thead> <tbody> <tr><td>A</td><td>3</td><td>0</td></tr> <tr><td>B</td><td>3</td><td>0</td></tr> <tr><td>C</td><td>1</td><td>2</td></tr> <tr><td>D</td><td>21</td><td>48</td></tr> <tr><td>E</td><td>14</td><td>0</td></tr> <tr><td>F</td><td>14</td><td>0</td></tr> <tr><td>G</td><td>38</td><td>0</td></tr> <tr><td>H</td><td>34</td><td>4</td></tr> <tr><td>J</td><td>21</td><td>17</td></tr> <tr><td>K</td><td>10</td><td>0</td></tr> <tr><td>L</td><td>2</td><td>0</td></tr> </tbody> </table> <p>Critical path is A, B, E, F, G, K, L</p> <p>or</p> <p>Nodes 1,2,3,5,6,8,9,11,12 (9 can be omitted as a dummy)</p>	Activity	Duration	Total Float	A	3	0	B	3	0	C	1	2	D	21	48	E	14	0	F	14	0	G	38	0	H	34	4	J	21	17	K	10	0	L	2	0	13	<p>For each TF award one mark up to a maximum of 11 marks.</p> <p><u>For critical path answer</u></p> <p>Two marks can be awarded for identifying the correct path independent to a candidate's response to the total float table.</p> <p>Award 1 mark out of 2 for one omission or inclusion of one incorrect letter of the correct path.</p> <p>The critical path answer MUST include in order, a minimum of: A-K-L.</p> <p>Two marks for incorrect path derived from OFR from candidate total float answer.</p> <p>An answer which is not supported with data or method and is not one which is expected achieves zero marks.</p> <p>One or two marks can be awarded either for the activity or nodes.</p>
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(b)	<p>With respect to a sale, there is a need to reduce the critical activities within the control of SLSL, so any method which seeks to reduce the time taken to process the instruction (collecting property details and agreeing a valuation with the vendor) and creating the marketing materials (web site details and paper details). Beyond these there is little that SLSL can do other than constantly seek to encourage viewings and facilitate the two parties in reaching an agreement once an offer has been made. Downstream of node 6 the rest is up to the lawyers and financiers so all SLSL can do is keep prodding to prevent stall.</p> <p>Financial efficiency</p> <ul style="list-style-type: none"> • $ROCE = 300,684/426,000 = 70.6\%$ • $ROE = 300,684/376,000 = 80.0\%$ <p>So, high values but that would be expected in a service, low capital requirement, business. To improve efficiency either reduce capital (lease more of the assets) or increase profits, ie sell more homes, alter the type of homes sold, so target the higher end of the range (big ones, room for a pony) or close control of costs.</p> <p>Selling (staff) efficiency (Contribution of staff to objectives) Expect some analysis of Table 4</p> <table border="1" data-bbox="324 973 1176 1109"> <tbody> <tr> <td>Viewings to instructions</td> <td>55.5%</td> <td>65.1%</td> <td>87.0%</td> </tr> <tr> <td>Offer to viewings</td> <td>53.1%</td> <td>45.1%</td> <td>40.0%</td> </tr> <tr> <td>Sales to offers</td> <td>90.8%</td> <td>84.4%</td> <td>68.2%</td> </tr> </tbody> </table> <p>Narrative of this data, Stamton is best at getting viewings, but not good at getting an offer from that viewing or a sale from any offer. Is there a reason for the variation between the three branches? Strategy, benchmark best branch and then apply the learning points to the less well performing branches. Is the difference due to the nature of the market in each town or due to the staff motivation/skill/attitude across the various branches? Watch out for Hanna is a 'numpty' and only has the job because of daddy.</p>	Viewings to instructions	55.5%	65.1%	87.0%	Offer to viewings	53.1%	45.1%	40.0%	Sales to offers	90.8%	84.4%	68.2%	18	<p>The question is about efficiency, the ratio of outputs to inputs. The better candidates will show evidence of different types of efficiency, either implicitly or explicitly, within the context of an estate agency, ie how might one measure efficiency here?</p> <p>Further, the question requires a strategy and so a series of unconnected ideas does not meet this stipulation should not be rewarded at the higher end of level 4.</p> <p>The validity of choice determined by the synthesis of case and subject.</p> <p>There is no single strategy possible in this situation so the mark will reflect the skill shown in putting forward the proposal.</p>	<p>Level 4 (12–18 marks) Candidate demonstrates evaluative skills when considering a strategy which could enable SLSL to improve its efficiency.</p> <p>Level 3 (8–11 marks) Candidate demonstrates analytical skills when considering ways in which SLSL could it improve its efficiency.</p> <p>Level 2 (4–7 marks) For demonstrating understanding of possible methods of improving efficiency, No context required.</p> <p>Level 1 (1–3 marks) For showing knowledge when considering a strategy to improve efficiency.</p>
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			<p>Evaluation; clear sequential strategy supported by case analysis. Also, what is efficiency and what does improvement mean? An increase in sales to offer could reduce financial efficiency if the focus on selling dominated over financial consideration, eg SLSL may accept a reduced commission simply to see the sale go through. Further, whilst viewings to instructions might be nice, ultimately it is sales which count, so evaluation might take the form of a justified priority of efficiency focus.</p>		<p>Evaluation may well arrive through consideration of "Improve efficiency" by how much and over what time period? Similarly, which measure of efficiency is the priority?</p>	

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2	<p>SLSL's gearing is 11.7% (debt equity is 13.3%) Loan is 3% above B of E rates so any increase in interest rates will cause borrowing costs to rise in the P&L and, hence, reduce profits. With lower profits any strategy which requires financing will be less likely due to reduced internal financing. But, the loan is not from a commercial lender and so the impact on SLSL may not be that great if Boddie were to forgo his additional interest. As a partner he gains reward from profits and as such may be less focused in his short term return in favour of a longer term growth of the business. Further, his objectives might be more emotional than financial; did he buy into SLSL to get a job for his daughter?</p> <p>As interest rates rise then mortgages become more expensive, and as such one could expect to see a decline in new borrowing and, hence, housing market activity. But, the data in tables 2 and 3 suggests there is little explicit correlation between 1% and housing market activity, so perhaps the theory doesn't hold. NB the source of this data is reliable; it is not something Alistair has made up. However, it is a national picture, and SLSL operates at a regional/local level and the UK housing market is not homogeneous. But, 1% is a national picture.</p> <p>Better answer will pick up a calculator to analyse the data in tables 2 and 3. Eg in the period shown mortgage lending has fallen 19.7%, house prices have fallen 1.4%, both at a time when 1% remained constant.</p> <p>If fewer house sales then SLSL may well decide now is the time to enter the residential lettings market. Does SLSL have the resources to do this; capital, market position, expertise. Case talks of enquires from buy to let landlords and increase in the letting markets as FTB find it more difficult to buy. Possible consideration of Ansoff in discussing this strategy. Also, candidates might discuss the sunk costs of this new venture; how big a risk is this for SLSL? What is the exit strategy if it doesn't work?</p>	18	<p>Impact on strategy will depend on how much interest rates rise by and over what time period.</p> <p>Consideration, and development, of these factors offers a possible route to evaluation.</p> <p>Do not award L4 for bland statements about LR v SR unless both are analytically developed in the context.</p> <p>The focus of the question is on how the external change alters the future direction of the business. Answers which simply discuss the impact on the firm should be rewarded at the lower end of the appropriate level.</p> <p>There is no single correct answer in this situation, so the mark will reflect the skill shown in putting forward the proposal.</p>	<p>Level 4 (12–18 marks) Candidate demonstrates evaluative skills when considering how a rise in UK interest rates might affect the strategic direction of SLSL.</p> <p>Level 3 (8–11 marks) Candidate demonstrates analytical skills when considering how a rise in UK interest rates might affect the strategic direction of SLSL.</p> <p>Level 2 (4–7 marks) For demonstrating understanding of interest rates No context required.</p> <p>Level 1 (1–3 marks) For showing knowledge of interest rates</p>

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3	<p>The two changes are different yet similar. They are different in that one is internal and the other external. Similar in that neither is required by external forces, rather they are entirely at the behest and control of the firm. However, they will need different management.</p> <p>External: fee structure. Two approaches. First simply impose this change – in essence it is a change to the firm’s marketing mix in that price is being adjusted. If imposed, what is the risk, will vendors no longer instruct SLSL (instead switching to rival firms)? Use of Table 1 shows that SLSL is, apparently, the most well recognised firm in the area, and its use of hybrid cars may offer it a degree of differentiation. How might SLSL seek to assess the risk of loss of sales before the change? Would MR help or be trustworthy? Alternatively, manage the change by offering vendors the choice; stage payments mean a reduced (semi skimmed) overall commission compared to end of sale payments at ‘full fat’ commission. A serious vendor is unlikely to object to staged payments, whereas those simply dipping a toe in the market to gauge their house’s value would be put off. Does this matter? Case mentions three lost sales last year, would a different fee structure have any impact on this loss? SLSL need to consider competitor reaction in developing a strategy; if competitors copy the move, then the risk is lowered, and so the management of the change is different.</p> <p>Internal: staff bonuses. First need to decide whether this change is good for the firm or good for <u>some</u> employees, NB the idea has come from two branches. Presumably there is a feeling at these two branches that they are being held back by the other (under performing) branch. The owners need to be convinced themselves that it is a good thing. Andrew may object if it exposes his daughter as being in charge of the least well performing branch.</p>	18	<p>Question asks about the management of change. This should mean that the best answers will offer just that and so consider objective, resources, sequence, success criteria, stakeholders and so forth.</p> <p>Management of change – Lewin – is appropriate here. First, gain agreement amongst the key decision makers, Alistair, Penelope and Andrew. Only then can the change be considered; unfreeze, change, refreeze.</p> <p>There is no single correct answer in this situation so the mark will reflect the skill shown in putting forward the proposal.</p> <p>The validity of choice of how to go about this change is determined by the synthesis of case and subject</p>	<p>Level 4 (12–18 marks) Candidate demonstrates evaluative skills when considering how SLSL might manage these two changes.</p> <p>Level 3 (8–11 marks) Candidate demonstrates analytical skills when considering how SLSL might manage these two changes.</p> <p>Level 2 (4–7 marks) For demonstrating understanding of possible methods of managing change. No context required.</p> <p>Level 1 (1–3 marks) Demonstrates knowledge of the management of change or offers unsupported suggestions.</p>

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			Branch bonuses cause problems, eg: if a buyer picks up property details from one branch but negotiates through another – whose sale is it? Might different branches start to compete against each other by quoting different fees in order to win the sale and hence the bonus tied to it? Also, note that the proposed bonus is assessed using a different criteria; existing is profit based, proposed is sales based. If staff are focused on sales they may lose sight of cost control. And so on...		If only one change is referred to, award at bottom end of the appropriate level.	

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4	<p>Lots to consider, not least the impact on objectives. The data suggest that the market is worth £319.48m. Assuming that sales are spread evenly across the 12 (11 existing and SLSL's new branch) agents, that represents sales of £26.6m each, and assuming a 1% commission that is £266,233 fee for the year. But, given their ability in SLSL's existing markets might they be able to get more than 1/12 of the market. How does that compare with SLSL objective of 4% sales growth?</p> <p>Also need to consider resourcing. To open Stamton took an investment of £60,000, so does SLSL have this amount of capital? So, need to consider sources of finance. Are the shareholders able and willing to invest, or can new shareholders be attracted but then diluting control. As major shareholders, what do the Roleys want?</p> <p>The gearing ratio of 11.7% is relatively low and so one might argue that obtaining additional finance would not significantly increase shareholders' risk.</p> <p>As an additional branch there would be a staffing consideration. Can suitable staff be found? Who might manage the branch? Might existing staff be transferable, or promotable? Does SLSL have any market position in the new market, case talks about a different local paper, so it may have to work hard (and spend lots of cash) to establish itself through the media. And, because of the separate newspaper there are no marketing economies of scale to exploit, although there may be other economies of scale available.</p> <p>Given it has an under performing branch (Stamton) already might it be sensible to sort that out first – another branch will need managerial time and attention which can be ill afforded.</p> <p>Consider the accuracy of the market research which appears to be somewhat superficial and only secondary/desk research. A</p>	23	<p>In assessing this question the mark awarded must reflect the assessment of QWC.</p> <p>There is no single "correct" answer in this situation so the mark will reflect the skill shown in putting forward the proposal.</p> <p>The validity of choice is determined by the synthesis of case and subject.</p> <p>L4 can be achieved through a holistic approach.</p> <p>If the plan is to close Stamton then candidates should mention SLSL's obligations to staff under law (TUPE and redundancy).</p>	<p>Level 4 (17–23marks) Candidate demonstrates evaluative skills when considering whether SLSL should expand by opening a branch in Market Harworth. 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 (11–16 marks) Candidate demonstrates analytical skills when considering whether SLSL should expand by opening a branch in Market Harworth. 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</p>

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				Content	Levels of response
		<p>decision could not be possibly based upon an afternoon's Internet research by a member of staff. What were Penelope's briefing to this person? Had she her own agenda e.g. wanted the findings to be positive?</p> <p><u>Data</u> 4% is £34,257.84 This equals 14 houses per annum in Market Harworth</p>			<p>these are unlikely to be intrusive or obscure meaning.</p> <p>Level 2 (5–10 marks) For demonstrating understanding when considering whether SLSL should expand by opening a branch in Market Harworth. Describes how the expansion might be managed in a generic sense with no use of the explicit context. 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 (1–4 marks) For showing knowledge when considering whether SLSL should expand by opening a branch in Market Harworth. 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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