

GCE

Business Studies

Unit **F297**: Strategic Management

Advanced GCE

Mark Scheme for June 2017

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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.
BOD	Benefit of doubt given
L1 L2 L3 L4	Levels of response awarded at this point
OFR	Own figure rule
TV	Too vague
NAQ	Not answered the question
NUT	Not used the context (generic)
REP	Repetition. The candidate has merely restated what has already been said and so no further credit given.
SEEN	The page has been seen. This can be used on pages where no other annotation is appropriate.

Subject-specific Marking Instructions**Crossed out responses**

Where a candidate has crossed out a response and provided a clear alternative then the crossed out response is not marked. Where no alternative response has been provided, examiners should give candidates the benefit of the doubt and mark the crossed out response where legible.

Contradictory responses

When a candidate provides contradictory responses, then no mark should be rewarded, even if one of the answers is correct.

Question	Answer	Marks	Levels of response																																														
1 a	<p>Using the data in Appendix 2, calculate FOUR profitability ratios for MML in 2016</p> <table border="1" data-bbox="304 432 1081 999"> <thead> <tr> <th>Ratio</th> <th>Formula</th> <th>Data</th> <th>Outcome</th> </tr> </thead> <tbody> <tr> <td rowspan="2">Return on Capital Employed</td> <td>$\frac{\text{PBIT}}{\text{CE}} \times 100\%$</td> <td>$\frac{0.4}{6.52} \times 100$</td> <td>6.13%</td> </tr> <tr> <td>$\frac{\text{NP}}{\text{CE}} \times 100\%$</td> <td>$\frac{(0.3)}{6.52} \times 100$</td> <td>(4.60%)</td> </tr> <tr> <td>Return on Equity</td> <td>$\frac{\text{NP}}{\text{Equity}} \times 100\%$</td> <td>$\frac{(0.3)}{5.62} \times 100$</td> <td>(5.34%)</td> </tr> <tr> <td>Gross profit margin</td> <td>$\frac{\text{Gross profit}}{\text{Sales}} \times 100\%$</td> <td>$\frac{2.82}{10.3} \times 100$</td> <td>27.38%</td> </tr> <tr> <td rowspan="2">Net profit margin</td> <td>$\frac{\text{PBIT}}{\text{Sales}} \times 100\%$</td> <td>$\frac{0.4}{10.3} \times 100$</td> <td>3.88%</td> </tr> <tr> <td>$\frac{\text{NP}}{\text{Sales}} \times 100\%$</td> <td>$\frac{(0.3)}{10.3} \times 100$</td> <td>(2.91%)</td> </tr> </tbody> </table>	Ratio	Formula	Data	Outcome	Return on Capital Employed	$\frac{\text{PBIT}}{\text{CE}} \times 100\%$	$\frac{0.4}{6.52} \times 100$	6.13%	$\frac{\text{NP}}{\text{CE}} \times 100\%$	$\frac{(0.3)}{6.52} \times 100$	(4.60%)	Return on Equity	$\frac{\text{NP}}{\text{Equity}} \times 100\%$	$\frac{(0.3)}{5.62} \times 100$	(5.34%)	Gross profit margin	$\frac{\text{Gross profit}}{\text{Sales}} \times 100\%$	$\frac{2.82}{10.3} \times 100$	27.38%	Net profit margin	$\frac{\text{PBIT}}{\text{Sales}} \times 100\%$	$\frac{0.4}{10.3} \times 100$	3.88%	$\frac{\text{NP}}{\text{Sales}} \times 100\%$	$\frac{(0.3)}{10.3} \times 100$	(2.91%)	13	<p>NB. Remember to apply the own figure rule. NB. Accept either version of ROCE (RONA) and NPM on a consistent basis NB Do not ‘double count’, i.e. reward two versions of ROCE or NPM</p> <table border="1" data-bbox="1223 501 1939 911"> <thead> <tr> <th></th> <th>ROCE</th> <th>ROE</th> <th>GPM</th> <th>NPM</th> </tr> </thead> <tbody> <tr> <td>3 Analysis Correct value, including percentage sign</td> <td>2</td> <td>1</td> <td>1</td> <td>1</td> </tr> <tr> <td>2 Application Attempts to use the case data to calculate ratio(s), including percentage sign</td> <td>1</td> <td>1</td> <td>1</td> <td>1</td> </tr> <tr> <td>1 Knowledge Name or formula of ratio(s)</td> <td>1</td> <td>1</td> <td>1</td> <td>1</td> </tr> </tbody> </table> <p>Correct ROCE = 4 marks 6.13% or (4.60%) either is correct. Correct ROE = 3 marks (5.34%) Correct GPM = 3 marks 27.38% Correct NPM= 3 marks 3.88% or (2.91)% either is correct All four correct, 13 marks Name of ratio and correct answer with no supporting method (formula or case data) = full marks Name of ratio but wrong answer with correct case data but a subsequent arithmetic error = 2 marks Name of ratio but wrong answer with incorrect case data = 1 mark Name of ratio but wrong answer and no supporting method (formula or case data) = 1 mark</p>		ROCE	ROE	GPM	NPM	3 Analysis Correct value, including percentage sign	2	1	1	1	2 Application Attempts to use the case data to calculate ratio(s), including percentage sign	1	1	1	1	1 Knowledge Name or formula of ratio(s)	1	1	1	1
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Answer		Marks	Guidance																	
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1	b	18	<p><i>NB. The question is about profitability, not profits. The better candidates will distinguish between margins and profits, either implicitly or explicitly. Further, it requires a <u>strategy</u> and so a series of unconnected ideas does not meet this stipulation.</i></p> <p><i>Profit margin (gpm and npm) figures show an improvement 2015 to 2016. So, carry on doing what is currently happening.</i></p> <p><i>In essence, the firm has to either increase revenues whilst maintaining costs, or decrease costs whilst maintaining revenues.</i></p> <p><i>High stock levels are implied to be very important competitively, so cutting stock holding costs by, for example, moving toward JIT would be myopic.</i></p> <p><i>Improve. Consideration in depth of "By how much and/ or by when" offer routes into L4</i></p>	<p>Level 4: 18-12 marks Candidate demonstrates evaluative skills when considering how MML might improve its profitability</p> <p>Level 3: 11-8 marks Candidate demonstrates analytical skills when considering how MML might improve its profitability</p> <p>Level 2: 7-4 marks Candidate demonstrates descriptive understanding of possible routes to improving profitability. No context required.</p> <p>Level 1: 3-1 marks Candidate offers relevant knowledge only.</p> <p>An answer which does not offer a clear justification should be rewarded toward the lower end of the level.</p> <p>An answer which considers more than one point of view but then concludes by suggesting it is not possible to be definite about 'yes' or 'no' can score toward the top of the level</p>																
<p>Recommend a strategy that would improve MML's profitability 20015 analysis</p> <table border="1"> <thead> <tr> <th>Ratio</th> <th>Data</th> <th>Outcome</th> </tr> </thead> <tbody> <tr> <td>Return on Capital Employed</td> <td>$\frac{(0.12)}{5.94} \times 100$ 5.94</td> <td>(2.02)%</td> </tr> <tr> <td>Return on Equity</td> <td>$\frac{(0.1)}{5.94} \times 100$ 5.94</td> <td>(1.68%)</td> </tr> <tr> <td>Gross profit margin</td> <td>$\frac{2.53}{9.48} \times 100$ 9.48</td> <td>26.69%</td> </tr> <tr> <td rowspan="2">Net profit margin</td> <td>$\frac{(0.12)}{9.48} \times 100$ 9.48</td> <td>(1.27)%</td> </tr> <tr> <td>$\frac{(0.1)}{9.48} \times 100$ 9.48</td> <td>(1.05%)</td> </tr> </tbody> </table> <p>Reduce costs, notably interest expense in the P&L. Can Robert be persuaded to stop taking £0.5m out of the business each year? If this was possible this cash could be used to pay off the firm's LT debt. NB Debt rose 2015 to 2016, might this simply be to pay the dividend given that the additional debt hasn't led to any increase in fixed assets.</p> <p>Get debtors to pay more quickly to aid cash inflow, reducing the need for external finance.</p> <p>Increase prices? Need to know the sense of this, can MML get away with higher prices?</p>		Ratio	Data	Outcome	Return on Capital Employed	$\frac{(0.12)}{5.94} \times 100$ 5.94	(2.02)%	Return on Equity	$\frac{(0.1)}{5.94} \times 100$ 5.94	(1.68%)	Gross profit margin	$\frac{2.53}{9.48} \times 100$ 9.48	26.69%	Net profit margin	$\frac{(0.12)}{9.48} \times 100$ 9.48	(1.27)%	$\frac{(0.1)}{9.48} \times 100$ 9.48	(1.05%)		
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	<p>Can other costs be cut? Salaries seem generous, What about product development, PD? Is this just Robert having fun playing designer? What benefit does MML gain from the £100pa outlay? But, cutting this may offer SR savings at the risk of falling behind competitors due to 'old fashioned' products in the LR. Scooter market is described as being more discerning, so cutting PD is potentially risky.</p> <p>Analysis of App 2</p> <table border="1"> <thead> <tr> <th></th> <th>Gpm</th> <th>npm</th> </tr> </thead> <tbody> <tr> <td>Scooters</td> <td>28.7%</td> <td>15.4%</td> </tr> <tr> <td>Furniture</td> <td>18.7%</td> <td>(8.9%)</td> </tr> <tr> <td>W Chairs</td> <td>22.5%</td> <td>(22.9%)</td> </tr> <tr> <td>Other</td> <td>71.0%</td> <td>(62.5%)</td> </tr> </tbody> </table> <p>Beware drop a product that's loss making. All make a contribution; some make a loss due to indirect cost allocation.</p> <p>If MML don't offer dealers the entire product range they may look for another supplier who can/ will.</p>		Gpm	npm	Scooters	28.7%	15.4%	Furniture	18.7%	(8.9%)	W Chairs	22.5%	(22.9%)	Other	71.0%	(62.5%)			<p>Default marks</p> <p>Level 4: 16</p> <p>Level 3: 10</p> <p>Level 2: 6</p> <p>Level 1: 2</p>
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2	<p>Discuss how a significant increase in UK interest rates might affect the achievement of MML's objectives.</p> <p>Interest rates represent the cost of borrowing and the reward for saving. Impact is both Internal (borrowing costs rise so (CP) profits fall. Further any future investment become less attractive External – MML have two markets Elderly are described as net savers increases in i% mean more income, sales might rise if products have + YED Health market little impact as funded by NHS rather than households</p> <p>Better answers will pick up a calculator to analyse the data MML's gearing 2015 $0.43 / 5.94 = 7.24\%$ 2016 $1.19 / 6.17 = 19.29\%$ Any increase in interest rates will cause borrowing costs to rise in the P&L and, hence, reduce profits. With lower profits any</p>	18	<p>Impact on objectives 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 achievements 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>An answer which does not offer a clear justification should be rewarded toward the lower end of the level.</p> <p>An answer which considers more than one point of view but then concludes by suggesting it is not possible to be definite about 'yes' or 'no' can score toward the top of the level</p>	<p>Level 4: 18-12 marks Candidate demonstrates evaluative skills when considering how a rise in i% will impact on MML.</p> <p>Level 3: 11-8 marks Candidate demonstrates analytical skills when considering how a rise in i% will impact on MML.</p> <p>Level 2: 7-4 marks Candidate demonstrates understanding of how a rise in i% will impact on MML. No context required.</p> <p>Level 1: 3-1 marks Candidate offers relevant knowledge only.</p> <p>Default marks</p> <p>Level 4: 16</p> <p>Level 3: 10</p> <p>Level 2: 6</p> <p>Level 1: 2</p>

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	<p>strategy which requires financing will be less likely due to reduced internal financing available.</p> <p>Increase in $i\%$ will also impact on sterling, making it stronger. This will mean the cost of imported scooters (Taiwan) fall. NB Scooters are about 55% of MML portfolio sales, so this is material. But, rising £ hinders exports unless MML take the hit of currency movements itself, but in the current loss making situation this looks unlikely. Hence impact of sterling depends on the PED for exports. Can it be assumed likely their products are inelastic?</p>			

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3	<p>To what extent is Amit correct in his opinion that MML is an ethical business?</p> <p>Ethics, a morale code of beliefs and behaviours that underpin how a business interacts with its stakeholders.</p> <p>MML's debtor payment period has increased 2015 $4.41 \times = 82.8$ days 2016 $4.14 \times = 88.2$ days This suggests it is not treating its customers unfairly by demanding prompter payment. In contrast MML's creditor payment has extended 2015 $3.87 \times = 94.3$ days 2016 $2.82 \times = 129.3$ days Which could be seen as unethical</p> <p>Being a warehouse its Norfolk base is unlikely to have much negative impact on its neighbours other than traffic – is this evidence of ethics?</p> <p>2016 wage bill of £1.3m across 28 staff averages over £46k each, which even allowing for NI etc. means that MML pays well, especially so in rural Norfolk.</p>	18	<p>Any business that makes profit from its consumers' disabilities can be seen as unethical – profiting from someone else's dependency. This argument can be levelled not just at MML but also the pharma industry, private health care etc.</p> <p>But MML offers potential solutions to immobility and as such it can be seen as offering a very beneficial solution and so improving the users' quality of life. Surely this is ethical behaviour.</p> <p>Is MML's willingness to cannibalise products to keep a user mobile an example of ethics? Be very easy to say "sorry to hear about your breakdown, we'll have the part for you in 30 days" – but they don't.</p> <p>Are management acting ethically by allowing George not to take his full holiday entitlement? Although his choice, one could argue that management should step in and insist, saving George from his own indulgence as being essential.</p>	<p>Level 4: 18-12 marks Candidate demonstrates evaluative skills when considering whether MML is an ethical business.</p> <p>Level 3: 11-8 marks Candidate demonstrates analytical skills when considering whether MML is an ethical business.</p> <p>Level 2: 7-4 marks Candidate demonstrates understanding of factors that contribute to a view about a business' ethical position. No context required.</p> <p>Level 1: 3-1 marks Candidate offers relevant knowledge only.</p> <p>An answer which does not offer a clear justification should be rewarded toward the lower end of the level.</p> <p>An answer which considers more than one point of view but then concludes by suggesting it is not possible to be definite about 'yes' or 'no' can score toward the top of the level</p> <p>Default marks Level 4: 16</p>

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4	<p>Amit estimates refurbished scooters could be sold by MML for £1,900.</p> <p>Should MML implement the strategy to refurbishment scooters? Justify your view.</p> <p>But need to think about the impact these refurbs may have on sales of new scooters. At the margin might some buyers of new switch to refurbs? Need to keep both markets apart, as is suggested by Robert's idea. However, can MML prevent re-importation? Do Robert's refurb tweaks make the two scooters sufficiently different?</p> <p>Reaction of the retailers is crucial given the balance of power in the relationship – MML seem to need the retailers more than the retailers need MML, which implies MML face stiff competition from other "manufactures".</p> <p>What are the downside risks/ sunk costs? One new recruit is the only 'capital' outlay, so if it doesn't work there's little loss.</p>	23	<p>'Average' scooter sells for £2,500. MML's 2016 gpm is 27.38%, so each contributes £684.5 to profits. A refurb selling for £2000 would cost (£400 + £200 + £380 + £125) £1105 giving a contribution of £795, an increase of about 16% more per unit than a new scooter. Refurbs have a gpm of 41.8%, So financially this looks attractive.</p> <p>No evidence MMI have done any MR in the proposed export markets. This makes it all a bit of leap in the dark.</p> <p>Is this venture material? Suggested output is One scooter per day. Which at 5 days/ week, 48 weeks/ year means 240 scooters, i.e. income of £456 pa, or 4.43% of 2016 levels. So this venture is worthwhile but not game changing in scope.</p> <p>2016 £10.3m sales, of which 55% were scooters, so MML sold £5.7m of scooters at an average of £2,500 means 2,300 units pa. hence refurbs would be increase output volume by roughly 10%.</p> <p>Candidates need to consider the</p>	<p>Level 4: 23-17 marks Candidate demonstrates evaluative skills when considering whether MML should refurbish scooters. <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>Level 3: 16-11 marks Candidate demonstrates analytical skills when considering whether MML should refurbish scooters. <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>Level 2: 10-5 marks Candidate demonstrates understanding of relevant issues surrounding the proposal. No context required <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</i></p>

Question	Answer	Marks	Guidance	
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	<p>Can Ansoff, and other analytical tools, help here?</p> <p>Support from other staff? If George isn't cooperative it may never work. What is Isobel's view?</p> <p>But at the end of the day Robert seems keen, so as Chairman it may be a non-question, Amit will simply have to make it work</p>		<p>problem holistically, so consideration of all 4 business behaviours is appropriate.</p> <p>Does the venture assist MML in its objectives? It appears so.</p>	<p><i>and intrusive.</i></p> <p>Level 1: 4-1 marks Candidate offers relevant knowledge only. <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> <p>Default Marks Level 4: 20 Level 3: 14 Level 2: 8 Level 1: 3</p>

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

OCR Customer Contact Centre

Education and Learning

Telephone: 01223 553998

Facsimile: 01223 552627

Email: general.qualifications@ocr.org.uk

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Facsimile: 01223 552553

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