

**Business Studies**

Advanced GCE

Unit **F297**: Strategic Management

**Mark Scheme for January 2011**

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**Question 1(a)**

The insert provided shows an incomplete trend line for overdue orders. This trend line has been calculated using Times Series Analysis, with a three period moving average. On the insert, and showing your working, forecast the level of overdue orders in February 2011. [13]

			Overdue orders	3 ma	Trend	CV
1	Mar	2009	18			
2	Apr	2009	17	49	16.33	0.67
3	May	2009	14	48	16.00	-2.00
1	Jun	2009	17	46	15.33	1.67
2	Jul	2009	15	45	15.00	0.00
3	Aug	2009	13	43	14.33	-1.33
1	Sep	2009	15	42	14.00	1.00
2	Oct	2009	14	40	13.33	0.67
3	Nov	2009	11	39	13.00	-2.00
1	Dec	2009	14	37	12.33	1.67
2	Jan	2010	12	36	12.00	0.00
3	Feb	2010	10	35	11.67	-1.67
1	Mar	2010	13	34	11.33	1.67
2	Apr	2010	11	32	10.67	0.33
3	May	2010	8	30	10.00	-2.00
1	Jun	2010	11	29	9.67	1.33
2	Jul	2010	10	28	9.33	0.67
3	Aug	2010	7	27	9.00	-2.00
1	Sep	2010	10	25	8.33	1.67
2	Oct	2010	8	24	8.00	0.00
3	Nov	2010	6			

Average Cyclical variation

1	9.01	1.50	Dec
2	2.34	0.33	Jan
3	-11.00	-1.83	Feb

Random component 0.00

September trend;  $(7 + 10 + 8) / 3 = 8.33$  CV;  $10 - 8.33 = 1.67$   
 October trend;  $(10 + 8 + 6) / 3 = 8.00$  CV;  $8 - 8 = 0.00$

Feb 2011 is the 3<sup>rd</sup> phase of the cycle  
 From the data above, average CV for 3rd phase  
 $(-2.00 + -1.33 + -2.00 + -1.67 + -2.00 + -2.00) / 6 = -1.83$

**February 2011**

Forecast trend = 6.1 (Allow the range 6.5 to 5.7; +/- 0.4)  
 Phase 3 of CV = -1.83  
 Forecast overdue orders = 4.27 -> 4 to nearest whole value (Allow the range 4.67 to 3.87)

		Trend Calculation	Trend Plot	CV	
<b>L3</b>	Uses the analytical technique to forecast the possible level of overdue orders	Calculates trend values for September and October, plots these points and extends the trend 2 marks		Calculates the correct value for CV (-1.83) 3 marks	<b>13-9</b>
<b>L2</b>	Applies understanding in attempting to forecast trend using own figures	Calculates correct trend figures 1-2 marks	Extends the given trend line using own trend figure 1 mark	Calculates correct CV figures 1-2 marks	<b>8-4</b>
<b>L1</b>	Offers an unsupported value	Unsupported value 1 mark	Unsupported value 1 mark	Unsupported value 1 mark	<b>3-1</b>

**Question 1(b)**

**Recommend and justify a strategy which could ensure that ADaPT's level of overdue orders continues to fall.**

**[18]**

*It is expected that candidates will use the additional evidence provided by answering Q1a here, but they need NOT do so.*

*The trend in overdue orders is falling, so it can be argued just carry on as is and they'll fall anyway. However, surely it is better to ensure this happens through decisive management action than simply sitting back and hoping that it does. So, a strategy is nonetheless appropriate. A strategy may be offered as a sequence of reasoned steps of managerial action*

*To reduce overdue orders there are essentially two routes*

*1. Increase output – already clear nearing capacity so might need to increase this somehow. Is the constraint human (physical) or machinery (capital)? Could output be raised by a longer working day, or working through till 4pm on Friday and also doing away with POETS? Incentives to staff, additional bonus (or existing bonus which takes account of this variable?) Given output peaks every 3<sup>rd</sup> month it suggests that money can be used to influence employee behaviour. Could ADaPT subcontract excess sales? Possibly use overtime.*

*2. Decrease sales! If you only accept the number of orders that can be processed in the time then the backlog will wither away. But is it really sensible for good sales to be turned away?*

*Another possibility is making a change the bonus criteria. Currently it is linked to output so possibly change this to the key variable with the firm wishes to control. If so, a change in remuneration strategy needs to be agreed by the senior team and then communicated to the workforce.*

*Might the backlog be a symptom of a failure of sales to talk with production about available space in the production schedule? If the backlog is cleared then there needs to be an mechanism by which it stays clear, so sales and production need to liaise? Is the title "sales" a clue, in that Sarah Patterson is sales driven and so that is all she looks at, leaving it to others to fix the problem her abilities/ enthusiasm causes? If so, a strategy has to include improved communication between sales and other functional areas.*

*Whichever route is taken then it would be reasonable for candidates to discuss the management of change. Candidates should also discuss the need for management, of which there doesn't appear to be a great deal in this company! So, some candidates might well link this back to the absence of objectives and Hamish's 'leadership style' and argue that ADaPT isn't able to have any strategy until its management is addressed.*

<b>L4</b>	Discussion is balanced in evaluating recommendation	<b>18-12</b>
<b>L3</b>	Analyses case material in support of recommendation	<b>11-8</b>
<b>L2</b>	Recommendation is supported by descriptive use of the material	<b>7-4</b>
<b>L1</b>	Offers suggestion(s) without support	<b>3-1</b>

## Question 2

**Discuss how reduced government spending might affect the strategic direction of ADaPT. [18]**

*Expect analysis of Table 1. Public sector Government spending (G) was just 1.14% of sales in 2001, but had risen to 34.1% by 2010. Clearly, any business which is exposed by 1/3 of their sales to a single sector is vulnerable to external shock.*

*Reaction depends on*

- 1 How big the reduction is*
- 2 How much the reduction is, whether in real terms etc..*
- 3 Where the reduction falls (health v defence, education v transport, etc). It could well be that health and education are sacred cows and so the fall in G will happen in other areas. Exceptional candidates will be aware of the coalition's Spending Review and where the axe has fallen.*

*Health is now the business' largest single market, so lost sales here need to be made up elsewhere. Retail has grown 35%, Tourism 111% and education 135% in the 10 year period. But, education has a large growth off a very small base. If Health is reduced then ADaPT should target growth areas or look for new (replacement) markets. Could this be print on demand books? Is this market big enough to replace public sector spending?*

*In the 10 years shown ADaPT sales grew 87%, whilst in the same period health spending grew 126% and all government spending rose 81% (and UK GDP rose 40.6%). Suppose public sector education sales fall by a little over 10%, say £15k, then overall sales fall by 1.3%, hence by virtue of its diversity of customers a big fall in one area need not be catastrophic (beware the 'massive' claims!). If sales fall by £15 then an increase in private work of just 2% will offset this fall. So, a sensible approach would be to task Sam and Sarah to target private sector sales, and seek to find another £15 (T&L is the fastest growth sector at 10%, followed by retail)*

*With an average npm of just 1.7% sales can't fall far without jeopardising the integrity of the entire business. So, if new customers can't be found, and the reduction in G is long term, then might need to reduce the size of the business. NB labour is the firm's biggest single cost.*

*Better candidates might question whether the business has any strategic direction, there is not a lot of evidence to suggest it has or indeed the growth in public sector sales was as a result of a deliberate policy on Hamish's behalf – rather the sales might simply have happened!*

<b>L4</b>	Discussion is evaluative in balancing different possibilities	<b>18-12</b>
<b>L3</b>	Case material is subject to analysis in discussing the possible affect of reduced government spending, G, upon ADaPT's strategy.	<b>11-8</b>
<b>L2</b>	Describes how ADaPT might be affected by reduced government spending, G.	<b>7-4</b>
<b>L1</b>	Demonstrates knowledge of government spending, G	<b>3-1</b>

## Question 3

**Should ADaPT continue to supply Morcott Motor Factors? Justify your view. [18]**

*The issue is multi-layered – there is the immediate issue of this one order, the longer term issue of any future orders from MMF and the more philosophical issue of what markets ADaPT want to serve as well as issue surrounding ADaPT’s credit “control”*

*MMF owe £31,983, or 33.6% of all aged debtors and at least 16.7% of balance sheet debt (but this figure is likely to be higher if MMF have invoices outstanding but are yet to be classified as being “aged”). NB ADaPT’s npm is 1.7%, it almost certain that their overdraft will be a higher figure than this, so it is clear that ADaPT cannot sensibly afford to carry/ subsidize MMF*

*If refuse to supply MMF may suddenly pay up in order to continue to access supplies. Their ability to switch to an alternative supplier is not likely to be great if they have a poor credit history, credit check as Abi implies. If MMF fails then ADaPT would need to write off £32k as a bad debt, or the equivalent of the last 2+ years net profit! Can shareholders afford this hit! So, a sensible approach would be to find out whether there is any substance in the rumours that David is quoting, NB. He could simply want to frighten his fellow managers into accepting the current order.*

*A more strategic approach would be to negotiate with MMF and to make it clear that future orders will only be accepted when some of the aged debt has been paid. Whether this can happen depends on who has the stronger bargaining position between the two businesses.*

*Longer term there is the issue of the type of business ADaPT want to be involved in. Whilst legal, there is a moral case for not serving customers who have such taste in promotional material – but it could well be that MMF simply feel they have to pander to the testosterone fuelled culture in car garages (MMF’s target market). Whatever decision is taken Sales and Marketing need to be involved so that they know what they can sell and to whom. If ADaPT continue to supply to MMF and other similar customers then the issue of who is prepared to do what has to be addressed – is it justified for an employee to pick and choose what they do? Might a vegetarian refuse to design material for as butchers/ steak restaurant? Again, the need for clear leadership is evident.*

*Again, the lack of clear direction with ADaPT might be addressed. Did David have the authority to tell Aysha to do this job? If not, why did he feel he could? If he did, did he do it deliberately to expose the issue – was it a sensible fight for him to pick? Does Hamish need to more clearly define David’s role? Or simply remind him that “the day to day administration and non-design management of ADaPT has been delegated to David” – i.e. what was he doing sticking his nose in?*

<b>L4</b>	Discussion is balanced in evaluating recommendation	<b>18-12</b>
<b>L3</b>	Analyses case material in support of recommendation	<b>11-8</b>
<b>L2</b>	View is supported by descriptive use of the material	<b>7-4</b>
<b>L1</b>	Offers view(s) without support	<b>3-1</b>

## Question 4

**Abigail believes ADaPT is “an underperforming business” (line 73). Recommend a strategic approach to ADaPT’s shareholders as to how its performance might be improved.**

[23]

*What does underperforming mean?*

*Financially the business is profitable, but in 2010 its ROCE was 3.17% and ROE 3.57%. It is highly unlikely that these returns exceed the opportunity cost of capital so in pure accounting / economic terms then the business is not performing well. However, the business has steadily grown in the last 10 years, and is 85% larger in sales terms in 2010 than it was in 2001 – is this evidence of underperformance? Given the growth in sales it is reasonable to infer the low pms are the result of poor cost control rather than asset utilisation.*

*Financially there are issues surrounding credit control causing unnecessary costly borrowing. Similarly, the business has quite high stocks (but this might be a requirement in this industry and in particular for a firm which gains a competitive advantage through fast response times to customers). If we look at the cash cycle then it is  $43.4 + 60.5 - 21.5 = 82.4$  days – any steps to reduce this would help financial performance.*

*To judge underperformance we really need some criteria – and here we simply don’t have much to go on. There are no explicit objectives (If asked to say what his objectives are Hamish would likely say “To run a good business, a place where people enjoying coming every day, making enough profit to keep everyone happy.”) for the business against which to measure performance. Does the business make enough profit to keep everyone happy? How happy are the shareholders? Mr & Mrs Watson might well be kept happy simply by having their son close by and so their objectives for the business are non-financial. Of the other shareholders, if they were unhappy then they might be able to sell. Company trades at a profit, but no mention of dividends for shareholders.*

*Being an Ltd are the shareholders culpable in allowing their business to have no clear objectives? If so, the first step to improvement is to insist that Hamish sets, or is set, some SMART objectives against which to assess performance. But is Hamish capable of doing this, he drifts off in meetings, sees financial data as an opportunity to be creative, appears to be incapable of running a meeting (no evidence or suggestion of an agenda), so maybe dear ol’ Hamish isn’t up to it. His lack of leadership creates the vacuum into which the internal managerial squabbling can occur. The fight between the managers, and between David and Aysha, are symptoms of a lack of ability by Hamish (1.1 impoverished management/ laissez-faire leadership?)*

*Better candidates will explore different ideas with explicit specification support. An order of priority may well be set so reflecting a strategic approach.*

<b>L4</b>	Achieves an overall view having evaluated different possibilities.	<b>23-17</b>
<b>L3</b>	Analysis of material supports discussion of performance improvement using the evidence from the case context.	<b>16-11</b>
<b>L2</b>	Describes ideas which could improve performance in a generic sense.	<b>10-5</b>
<b>L1</b>	Offers unsupported ideas or knowledge of business performance.	<b>4-1</b>

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