

Business Studies

Advanced GCE A2 H430

Advanced Subsidiary GCE AS H030

Mark Scheme for the Units

January 2009

H030/H430/MS/R/09J

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Advanced Subsidiary GCE Business Studies (H030)

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F291 An Introduction to Business

- 1 Tesco, as a retailer, operates in the tertiary sector of the economy. [4]
 Giving an example of each, identify the other two sectors of economic activity.

*Primary – extractive industries; farming, fishing, mining.
 Secondary – manufacturing and construction.*

One mark for each correct identification up to maximum of two.
 Two identifications, plus a further one mark for each of two correct exemplifications.

- 2 (a) Analyse one reason why Tesco carries out market research. [6]

Using market research Tesco can consider (eg) trends, market share, customer profile, customer needs/wants, competition, the best way to package, the best way to promote, the right price to charge, etc.

Some consequence of carrying out the research should take a candidate to Level 3.

Level 3	Some analysis of a reason for Tesco to carry out market research.	(6-5)
Level 2	Some understanding of the issues.	(4-3)
Level 1	Knowledge statement(s) eg "it will help it know what people want".	(2-1)

- (b) **Other than market research, discuss the likely factors that will influence the future success of Tesco.** [14]

NB Accept answers for Tesco as 'a corporate entity' and/or as 'an individual store'.

The question centres on sections of the specification "What businesses need"/"Objectives"/"The market" and "Other influences". Possibilities might, therefore, include:

- *adequate/appropriate finance for expansion;*
- *adequate cash flow – accept "enough money to pay the bills", etc;*
- *the 'right staff' at shop floor and managerial level. This will involve HRM planning, training, etc;*
- *a 'good relationship' with suppliers;*
- *meeting customer needs in terms of prices charged, products demanded, etc;*
- *appropriate (ie SMART) strategic and tactical objectives;*
- *regular evaluation of progress towards objectives;*
- *taking 'appropriate risks' in order to succeed, eg new ventures such as online ordering;*
- *ability to respond to 'the market', eg competitors' actions, changes in income, changes in supply, etc;*
- *ability to respond to technological changes;*
ability to respond to demographic (and, therefore, consumption) changes.

Level 4	Some evaluation of the impact of the factor(s) in determining the future success of Tesco.	(14-11)
Level 3	Some analysis of factor(s) in context.	(10-7)
Level 2	Some understanding of factor(s).	(6-4)
Level 1	Factors influencing business success are identified.	(3-1)

- 3 State two examples of economies of scale which benefit Tesco. [2]

*Purchasing
Financial
Managerial
Risk bearing
Marketing
Technical
Internal and/or external*

External economies – these are likely to be economies of concentration but the term does not have to be used.

2 x 1 mark [2]

- 4 Analyse two ways in which Tesco might benefit from setting clear objectives. [10]

Allow references to tactical/and/or strategic objectives. Allow references to Tesco as a whole or at branch level. There is no necessity to work within the SMART framework.

Objectives are targets for a business to reach. If Tesco has clear objectives there will be clarity as to what should be achieved. There will be a much greater sense of direction so that Tesco can meet its stakeholders' needs.

Employees will know what they are expected to achieve which can improve coordination of business activities. The business will not just 'drift' along. Tesco is a high profile plc and its shareholders will want to know that it is 'on course' to make money for them.

The same will be true of creditors and potential creditors.

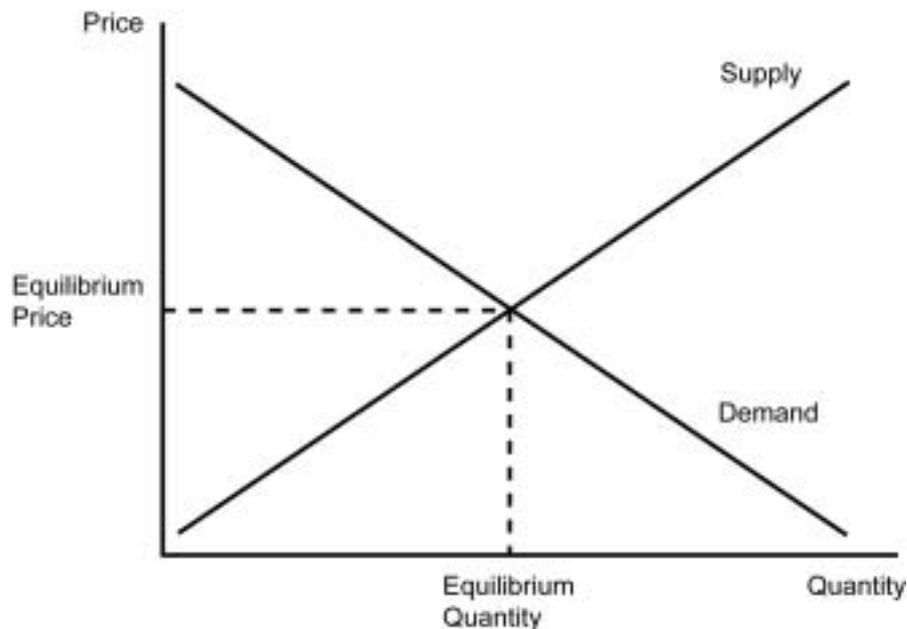
Objectives form an essential part of Tesco's business plan. Setting strategic objectives will help managers focus on tactical ones. They will provide a basis for decision making.

Objectives are usually quantifiable and so Tesco can use them to measure success. Reviewing success gives a guide as to future courses of action.

Level 3	Some analysis of benefit(s) to Tesco.	(10-7)
Level 2	Some understanding of issue(s).	(6-4)
Level 1	Knowledge of benefit(s) and/or business objective(s).	(3-1)

- 5 (a) "In theory market prices are determined by supply and demand". [4]
(Line 14)

Draw a supply and demand diagram to show a market equilibrium price and quantity.



Correctly labelled: Demand curve (1), Supply curve (1)
Line to price axis (1) Line to quantity axis (1) must come from the intersection of D & S (even if correctly labelled)

- (b) State two characteristics of a monopoly. [2]

Single firm or 25% market share
Able to erect barriers to entry
Price setter
Inefficiency
Possibility of high profits

NB Technical micro economic terminology and knowledge is not necessary.

Level 1: 2 x 1 mark

- 5 (c) Evaluate whether Tesco's stakeholders will benefit from the company's growth. [18]

Essentially the answer revolves around "which stakeholders benefit?" or/and "Is this correct"?

Possible stakeholders in Tesco: shareholders, employees, customers, "local community", suppliers, government.

It could be argued that, as the shareholders are those who have risked their money by investing in Tesco, they should get a large/the largest benefits/reward if the objective is reached. Shareholders will see a rise in share value and higher dividends if growth is translated into profit. In the short run will dividends have to fall if some profit is retained to help pay for the growth?

Are employees going to be 'losing out', eg in terms of wages, conditions, job security? In the long run employees could benefit if the company is in a secure financial position or/and their wages rise in a 'fair' way. A bigger firm hopefully means more job security and better conditions.

Are Tesco's senior managers simply doing this to 'empire build', ie enjoy the power and prestige of being in charge of an even larger company. They may demand more resources to achieve the objective and more pay/bonuses if it is achieved. Less cynically, Tesco's growth may enable executives to aspire to greater challenges and more job satisfaction.

Do customers benefit? prices are low but if the firm gains a monopoly position will it put them up again? NB How likely is 'a monopoly position', given the nature of grocery retailing?

Will 'the local community' benefit? Jobs may be created but some will be lost. Old established businesses may be forced to close. Is this 'good'? There may well be more traffic congestion in the area around the stores. If growth leads to profit, Tesco may (feel it should) 'put something' into the local community, eg community grants/sponsorship.

Suppliers will not benefit if they are having 'take it or leave it' deals forced on them. Will they be stakeholders in the true sense of the word and be 'partners' in the growth? If so, the larger Tesco may mean that the suppliers' position is more secure.

Presumably the government will be 'happy', as it will get more tax revenue if the objective is achieved.

Level 4	<p>Some evaluation eg supported judgment concerning the impact of growth on Tesco's stakeholder(s).</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>	(18-14)
Level 3	<p>Some analysis of the impact of growth on Tesco' stakeholder(s).</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 and grammar, but these are unlikely to be intrusive or obscure meaning.</p>	(13-9)
Level 2	<p>Some understanding of the issues(s).</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>	(8-5)
Level 1	<p>Knowledge recalled about objectives and/or stakeholders.</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>	(4-1)

F292 Business Functions

Section A

1 (a) Define the term 'market share'. [2]

The proportion or percentage of the total market that a particular firm has managed to achieve (value or volume terms accepted).

Accept a correct formula as a definition.

2 marks – a clear knowledge of what the term means

1 mark – a general idea of the term (eg a recognition about it being a part of the total market)

(b) State two functions of a wholesaler. [2]

- *They sell to retailers*
- *They buy from producers*
- *They act as a link between producers of a good and the retailer.*
- *They break down bulk.*
- *They have well established distribution networks*
- *They store goods.*
- *Wholesalers can also give advice to retailers and offer other marketing support.*

One mark per correct identification up to a maximum of two marks

(c) One way of structuring the organisation of a business is by product. Identify two other ways in which a business may be organised. [2]

- *Function*
- *Geography/area/location/market*
- *Matrix/centralised/decentralised.*

One mark per correct identification up to a maximum of two marks

(d) A small business producing umbrellas has fixed costs of £60,000 per year.

Variable costs are as follows:

Labour	£5 per unit
Materials	£3 per unit
Other costs	£1 per unit

If the firm sells umbrellas for £ 11.50 each, calculate the break-even output per month. [4]

$$\text{Break-even} = \frac{\text{Fixed Costs}}{\text{Unit Contribution}} \quad [1]$$

$$\text{Unit contribution} = £11.50 - £9 = £2.50 \quad [1]$$

$$\text{Break-even per year} = \frac{£60,000}{£2.50} = 24,000 \text{ units} \quad [1]$$

$$\text{Break-even per month} = 24,000/12 = 2,000 \text{ units} \quad [1]$$

OFR

Award 4 marks for correct answer (no working out is necessary)
Award 3 marks for £2,000

NB: The OFR means that, for example, a single mistake in calculating the unit contribution with no further mistakes would be awarded 3 marks (1 error).

(e) Outline two possible advantages to a firm of using flow production. [4]

- Lower unit costs are possible, maybe due to more capital intensive methods
- High levels of standardisation are possible due to the nature of a continuous production line
- Increased levels of output as flow production is generally faster due to less changeover time

Level 2	Some understanding shown of the advantage(s) of using flow production.	(4-3)
Level 1	One or two advantages identified/stated.	(2-1)

(f) Explain the difference between quality control and quality assurance. [4]

- Quality control takes place at the end of the line whilst quality assurance involves constant monitoring
- Everyone is responsible for quality assurance, whereas appointed inspectors carry out quality control
- Quality assurance emphasises the notion of the internal customer

Level 2	Some understanding shown of how quality control and quality assurance differ.	(4-3)
Level 1	Some knowledge of what quality control and/or quality assurance are.	(2-1)

Section B

2 Table 2, below, lists the budgeted and actual data for a recent contract for supplying three units to a Premier League football club for one match.

(a) Calculate the profit variance for this contract. [4]

Table 2

	<i>Forecast</i>	<i>Actual</i>	<i>Variance</i>
<i>Sales revenue</i>	£ 2,250	£2,050	200 A [1]
<i>Costs</i>			
<i>Direct labour</i>	£ 500	£ 412	88 F
<i>Materials</i>	£ 800	£ 900	100 A
<i>Transportation</i>	£ 100	£ 140	40 A
<i>Allocated overheads</i>	£220	£ 220	-
<i>Total Costs</i>	1620	1672	52 A [2]
<i>Profit</i>	630	378	252 A [1]

Alternative method

$$\text{Forecast Profit} = £2,250 - £1,620 = £630 \quad [1]$$

$$\text{Actual Profit} = £2,250 - £1,672 = £378 \quad [1]$$

$$\text{Profit Variance} = £252 [1] \text{ Adverse [1] OFR}$$

- (b) Discuss the advantages and disadvantages to QVL of using budgets as an aid to decision-making. [16]

There are advantages and disadvantages of using budgets at QVL. Advantages include:

- *budgets act as a means of controlling income and expenditure as well as a review for a business allowing time for any necessary corrective action. In QVL's case, its rapid growth may lead to difficult decisions having to be made to prevent a loss of control of costs, - to the extent that profits are damaged. Its bank is already becoming concerned about the cash flow and overdraft facility that QVL has;*
- *the proposed European expansion will need to be well planned. Budgets help to ensure that capital is usefully employed in a manner consistent with the planned level of activity;*
- *budgets allow communication of targets and delegation of responsibility to other managers and employers in the business. Given the lack of direct control that Evan currently appears to have on the business, budgets will be very helpful.*

There are, however, disadvantages of using budgets. They include:

- *when budgets are consistently missed they can lose their importance. There is already a lack of attention to budgets in QVL and recent experience of variances up to 60% reduces the credibility of budgets to the other managers. There is also mention of Evan's random giving of discounts which is not helping the stability and validity of the budgeting process. This is an issue of culture and one that Evan will need to address urgently. The appointment of Liz may help to increase the importance of budgets at QVL;*
- *changes in circumstances can make a budget unrealistic. The rapid growth at QVL and planned further expansion may minimise the accuracy of budgets. QVL also deals with a lot of imports and exports, so that exchange rate changes can seriously affect the reliability of a budget;*
- *budgets can lead to demotivation of the workforce if they are imposed and/or performance is measured against them.*

Level 4	Some evaluation shown by supporting any judgement made about the usefulness of budgeting for decision-making at QVL.	(16-12)
Level 3	Some analysis of the advantages and disadvantages of using budgets for QVL with specified reference to the context available.	(11-7)
Level 2	Some understanding shown of how budgets can be used.	(6-3)
Level 1	Some knowledge of budgets and/or the budgeting process. Correct statements about the budgeting process.	(2-1)

3 Evaluate whether or not QVL should introduce lean production methods. [16]

Lean production is a collection of techniques that attempt to minimise waste in a firm. Waste can be defined as anything that slows down production or which stops production operating at low cost. Lean production can also improve quality and overall efficiency.

There are a number of potential benefits that lean production may provide for QVL:

- *improvements in cash flow - better stock control and waste reduction can release money to be better spent elsewhere in the organisation. This is known to be a problem in QVL and may help to reduce the budget variances and overdraft;*
- *increased level of output - with the proposed growth at QVL, anything that will help to keep supply up with demand will be very helpful. Garry has already said that he is finding it more and more difficult to supervise the installation and building of the units. His suggestion for increasing the lead time for delivery of units appears to be unattractive to Evan. It will also not help the firm's ability to take advantage of its current dominant position or flexibility that is highlighted as a major selling point in the Consultant's report;*
- *higher level of worker participation - we know relatively little about the firm's employees but with the concerns being raised by Garry Wilson about Evan's detachment from the business, anything that gives more of a feeling of ownership and responsibility to the workers will be beneficial;*
- *reduced costs and waste - given the number of components and the problems of space at the Oxford warehouse, a focus on minimising waste and stock will not only reduce costs but also free up space for the more important function of production.*

However, there are potential problems of implementing lean production at QVL, not least the fact that it has suppliers from around Europe. Lean production normally emphasises the need for a reliable supply chain. With so many suppliers spread across Europe and the implied problems, particularly with the Italian supplier, lean production may be a recipe for disaster. It may also cause problems when trying to meet customer demand. The flexibility of supply is important and demand is unlikely to be that unpredictable. The need to reduce waste and minimise stocks can reduce the ability of QVL to cope with any sudden changes in demand.

A final concern may be about Evan. Lean production assumes the full co-operation of all staff and, in particular, the support of management. Given Evan's detachment from the day-to-day running of the firm it may be left to Garry to oversee the implication of lean production which may not give it the necessary weight of focus that it needs.

Level 4	Some evaluation shown by assessing the appropriateness of using lean production at QVL, with any judgements being supported.	(16-12)
Level 3	Some analysis of how lean production may or may not be beneficial, with specific reference to the context facing QVL.	(11-7)
Level 2	Some understanding shown of the benefits of lean production.	(6-3)
Level 1	Some knowledge of what lean production is and/or elements that it may contain.	(2-1)

4 Discuss how Evan's leadership style may need to change if QVL continues to grow. [16]

Leaders are responsible for setting the objectives of a business and for coping with change. The style of leadership will have an important effect on the workforce and how the workforce responds to the leader will affect the ability of the business to achieve its objectives.

Evan can be characterised as being a rather detached leader - although it may be a little strong to suggest simply that he is a laissez-faire leader. There is, however, a difference between how he sees his role in the business and that expected by his other managers, particularly Garry Wilson. Evan freely admits he is not a natural born leader and is still learning how to be a good leader/manager. This is in part due to the rapid growth seen at QVL which has meant that Evan's role has changed. It may be fair to suggest that Evan has not evolved his leadership along with the company.

It sounds as though Evan still regards the business as 'his' firm. He needs to have a more inclusive attitude as many more people are now dependant upon it. He appears to only be slowly realising the need to let go of his non-MD functions. The fact that he has only just appointed someone to look after the financial situation is maybe symptomatic of this. He is still also fulfilling the Sales & Marketing function which is what is keeping him from the 'office' so much of the time and appears to be the main concern raised by Garry. Evan still appears to be more like a travelling salesman. This may have been fine in the past while he was building up the business but now he needs a different focus in the firm.

Evan seems to think that just because he has his Blackberry and laptop at hand he is in full contact with the business. However, this is not the same as being a hands-on leader which is what the business appears to need at present.

It may be relevant to suggest that Evan needs to take the advice of his Marketing Consultant and employ an experienced sales person or agency so that Evan can focus his efforts on clearer leadership for the business as a whole. Another suggestion could be that Evan needs to appoint a separate Managing Director who would oversee the day-to-day running of the business, so that Evan can be more of a figurehead/Chairman type figure. He does say that he most enjoys meeting customers and users so he may not be best suited to the more office-based MD work that appears now to be required.

Candidates may take a more structured approach to talking about leadership, although it is unlikely that a good contextual answer would be as simple as saying that Evan needs to be less of a laissez-faire leader. He probably does need to be more of a democratic leader, but more importantly he needs to be more of a visible, hands-on leader.

Level 4	Some evaluation shown by justified judgements in respect of how successful for QVL any changes to Evan's leadership style may be.	(16-12)
Level 3	Some analysis of the implications for QVL of changes to Evan's leadership style and/or the benefits/problems of these changes.	(11-7)
Level 2	Some understanding shown of changes in leadership styles and how they may affect a business.	(6-3)
Level 1	Some knowledge of leadership styles and/or statements about Evan's current leadership style.	(2-1)

5* Assess ways in which QVL's marketing mix may need to change if it broadens its target market. [20]

The marketing mix refers to those elements of a firm's marketing strategy which are designed to meet the needs of its customers. The marketing mix is made up of the four Ps - Price, Product, Promotion and Place. Candidates do not need to look at all of these components to score full marks, although it would be expected that at least two are discussed, with an attempt to identify the most important when looking to evaluate.

Product - Evan is trying to move into different markets, both in terms of market (Europe and other sports) and what is sold (mobile shopping malls and non-sports products). Clearly these will present challenges for QVL and Evan needs to look at how these changes make the product different from what is currently sold - does QVL have the necessary expertise? A product portfolio analysis would be useful, as recommended by the Marketing Consultant.

Price - Evan needs to understand where each of the products is on its product life cycle. This will help determine issues such as pricing decisions. Moving into Europe, where the idea is new, may require more of an aggressive pricing strategy to gain a foothold in the market. There will also be additional problems caused by exchange rates in terms of setting prices. There is also some evidence of QVL's first mover advantage in the domestic market beginning to disappear and so prices may need to be reduced to fight off any potential competition.

Place - One of the suggestions in the Marketing Consultant's report is to use a marketing agency or set up a franchised operation. This may be particularly beneficial in Europe where QVL are not well known and Evan has fewer or no contacts. An agency would help to get a foothold in the market and set up links with potential customers. This is only slightly less true for entering the non-sports market in the UK. It may be relevant to question how willing Evan would be to enter into a franchise arrangement, given the way that he has grown the business so far.

Promotion - Making better use of the links already built up with suppliers and customers in the UK has been highlighted in the Marketing Consultant's report. The new case study brochure that QVL has recently introduced will need to be monitored to see how successful it is and whether it is that useful for the non-sports market. It may be an idea for QVL to develop a strong link with one new customer in the non-sports market, even if it means operating it as a loss leader, in order to build up a presence in the new market.

Better answers will recognise that the different products/markets that QVL is looking to move into will need a different approach from what has been successful so far.

Level 4	<p>Some evaluation shown by justifying the likely success or otherwise of suggestions made to changes in the marketing mix at QVL.</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</p>	(20-15)
Level 3	<p>Some analysis of appropriate changes to the marketing mix, with specific reference to the changing product portfolio of QVL.</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 and grammar, but these are unlikely to be intrusive or obscure meaning.</p>	(14-9)
Level 2	<p>Some understanding shown of possible changes to the marketing mix.</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>	(8-4)
Level 1	<p>Some knowledge of the marketing mix and/or identification of its contents.</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>	(3-1)

Grade Thresholds

Advanced Subsidiary GCE (Business Studies) (H030)
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Unit Threshold Marks

Unit		Maximum Mark	A	B	C	D	E	U
F291	Raw	60	43	38	34	30	26	0
	UMS	80	64	56	48	40	32	0
F292	Raw	90	61	54	48	42	36	0
	UMS	120	96	84	72	60	48	0

For a description of how UMS marks are calculated see:
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