

Business Studies

Advanced Subsidiary GCE **F292**

Business Functions

Mark Scheme for June 2010

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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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Section A

Question		Expected Answers	Marks	Rationale
1	(a)	<p>State <u>two</u> needs in Maslow's 'hierarchy of needs'.</p> <p>Any TWO from:</p> <ul style="list-style-type: none"> • Basic or physiological needs • Safety or security needs • Social or friendship or relationship or belonging needs • Esteem or ego needs • Self-actualisation or creativity needs <p style="text-align: right;">2 x 1 mark</p>	[2]	<p>Allow other needs, eg essential needs, if they are clearly referring to those named by Maslow.</p> <p>However, do not accept just specific examples of the needs, eg responsibility, recognition.</p>
	(b)	<p>Define the term 'job production'.</p> <p>Where goods are produced one at a time to match the specific needs of the customer. Accept reference to the production of unique or bespoke items.</p> <p>2 marks – a clear knowledge of what the term means with reference to the unique, one-off, nature of the product. 1 mark – a general idea of what the term means (eg producing one product at a time)</p>	[2]	<p>Only a definition is needed, it is not necessary to provide an explanation.</p> <p>1 mark for reference to a unique/bespoke product 1 mark for reference to the product being produced singly or one at a time 1 mark for an example</p>

Question	Expected Answers	Marks	Rationale									
(c)	<p>Identify <u>two</u> investment appraisal techniques.</p> <p>One mark for each of two correct identifications</p> <ul style="list-style-type: none"> • Payback method • Average, annual or accounting rate of return <p>Accept reference to other methods not found on the AS specification, such as DCF, NPV or IRR.</p> <p style="text-align: right;">2 x 1 mark</p>	[2]	ARR/ARoR is acceptable as an answer									
(d)	<p>(i) Parker's fish bar is one of 20 fish and chip shops in Evesham.</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 35%;">Annual sales revenue of Parkers (£)</td> <td style="width: 30%;"></td> <td style="width: 35%;">Total annual sales of all fish & chip shops in Evesham (£)</td> </tr> <tr> <td>2009 87,276</td> <td></td> <td>2,493,600</td> </tr> <tr> <td>2008 83,120</td> <td></td> <td>2,074,823</td> </tr> </table> <p>Calculate Parkers' percentage increase in sales revenue from 2008 to 2009.</p> $\frac{\pounds 87,276 - \pounds 83,120}{\pounds 83,120} * 100 = \underline{\underline{5\%}}$ <p>OR</p> $\frac{\pounds 87,276}{\pounds 83,120} = 105 - 100 = \underline{\underline{5\%}}$	Annual sales revenue of Parkers (£)		Total annual sales of all fish & chip shops in Evesham (£)	2009 87,276		2,493,600	2008 83,120		2,074,823	[2]	<p>Award 2 marks for correct answer even with no working.</p> <p>£4156 = 1 mark 105% or 105 or 1.05 = 1 mark</p> <p>The most likely wrong answer will be 4.76% (4.8%) if the wrong year is used as the denominator- award 1 mark for method</p> <p>If the wrong column of figures is used then award 0 marks</p> <p>No percentage sign is required</p>
Annual sales revenue of Parkers (£)		Total annual sales of all fish & chip shops in Evesham (£)										
2009 87,276		2,493,600										
2008 83,120		2,074,823										

Question	Expected Answers	Marks	Rationale						
	<p>(ii) Calculate Parkers' market share in 2009.</p> <p>$\pounds 87,276 / \pounds 2,493,600 * 100 = \underline{\underline{3.5\%}}$</p>	[2]	<p>Award 2 marks for correct answer even with no working</p> <p>If the figures for 2008 are used (answer of 4%) award 1 mark</p> <p>0.035 is only 1 mark (needs to be a percentage for 2 marks)</p> <p><u>For an inverted calculation</u> 1 mark if answer = 2857% 0 if answer = 28.57 or 28.6</p>						
1	<p>(e) Outline <u>two</u> advantages to a firm of having a centralised management structure.</p> <ul style="list-style-type: none"> • Decisions can be made more quickly - because there is less need for consultation • There is likely to be stronger/clearer leadership in a crisis – because fewer people are involved in decision-making • There will be a standardised approach to all decisions – which provides clearer objectives for the staff <u>or</u> a consistent approach to customers • There will be less duplication of resources - so reducing costs <table border="1" data-bbox="376 1090 1193 1190"> <tr> <td data-bbox="376 1090 510 1158">Level 2</td> <td data-bbox="521 1090 1081 1158">Some understanding shown of the advantage(s) of a centralised structure.</td> <td data-bbox="1093 1090 1193 1158">(4-3)</td> </tr> <tr> <td data-bbox="376 1161 510 1190">Level 1</td> <td data-bbox="521 1161 1081 1190">One or two advantages identified/stated.</td> <td data-bbox="1093 1161 1193 1190">(2-1)</td> </tr> </table>	Level 2	Some understanding shown of the advantage(s) of a centralised structure.	(4-3)	Level 1	One or two advantages identified/stated.	(2-1)	[4]	<p>Ensure the two advantages are different.</p> <p>Look for the advantage (L1) along with by a brief explanation or example (L2)</p> <p>Allow implication that centralisation means only 1 person makes the decisions</p> <p>NB A centralised management structure does not imply any particular hierarchical structure.</p> <p>One advantage stated = 1 mark Two advantages stated = 2 marks One advantage outlined = 3 marks Two advantages outlined = 4 marks</p>
Level 2	Some understanding shown of the advantage(s) of a centralised structure.	(4-3)							
Level 1	One or two advantages identified/stated.	(2-1)							

Question		Expected Answers	Marks	Rationale						
1	(f)	<p>Explain two ways in which a business may gain economies of scale</p> <ul style="list-style-type: none"> • Purchasing economies - benefits of buying in bulk • Financial economies - larger firms may be able to negotiate cheaper finance (or any finance) • Managerial economies - larger firms can employ specialist managers and support staff • Marketing economies - more cost effective forms of marketing can be used (eg TV or national) • Risk-bearing economies - a larger range of products, consumers or suppliers can reduce risk • Technical economies - benefits of being able to afford more effective capital equipment • Allow any external economies of scale – eg concentration and information economies <table border="1"> <tr> <td>Level 2</td> <td>Some understanding shown of how economies of scale occur in a business.</td> <td>(4-3)</td> </tr> <tr> <td>Level 1</td> <td>Some knowledge of economies of scale (eg naming them).</td> <td>(2-1)</td> </tr> </table>	Level 2	Some understanding shown of how economies of scale occur in a business.	(4-3)	Level 1	Some knowledge of economies of scale (eg naming them).	(2-1)	[4]	<p>A correct explanation of a type of economy of scale, without it being named or named incorrectly, can be awarded L2.</p> <p>Accept answers stating 'internal' and/or 'external' economies of scale at L1. For L2 candidates must then explain what is meant by these two terms.</p> <p>One EoS stated = 1 mark Two EoSs stated = 2 marks One EoS explained = 3 marks Two EoSs explained = 4 marks</p>
Level 2	Some understanding shown of how economies of scale occur in a business.	(4-3)								
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Section B

Question	Expected Answers	Marks	Rationale
2 (a)	<p>During the year 2009-2010, a total of 23 employees left SRCL. Calculate the labour turnover for this year.</p> <p>Labour Turnover = $\frac{\text{No. of employees leaving}}{\text{(Average) No. of employees in business}}$ [1]</p> <p>= $\frac{23}{115} \times 100$</p> <p>[1]</p> <p>= 20%</p> <p>[2]</p>	[4]	<p>An answer of 20% with no working gains 4 marks</p> <p>An answer of 0.2 or 20 (no units) gains 3 marks</p> <p>An incorrect answer with no evidence of working = 0</p>
	<p>(b) Assess how the recent increase in labour turnover may affect SRCL</p> <p><i>Labour turnover is the rate at which employees leave the business for whatever reason. It is clear to see from Table 3 that labour turnover has steadily increased at SRCL from 3-5% to 20% (OFR) in the last 5 years, although there was a particularly steep jump in 2008.</i></p> <p><i>We are told it costs £100,000 to train an apprentice and that many of the current skilled workers have come through this programme. As labour turnover increases this is a significant cost to SRCL and may dissuade it from making the necessary future investment in its workforce. However, it is hard to imagine that there will be a large pool of available labour for this sort of work and so as labour turnover increases, it may be difficult to even recruit suitable replacements externally. As 70% of its workforce is skilled and SRCL is expanding, higher labour turnover may seriously restrict its future growth. There is also evidence that the ageing workforce shown in Fig 1 will lead to further labour turnover problems in the short-to-medium term.</i></p>	[16]	<p>Answers that focus entirely on what is causing the labour turnover at SRCL are not answering the question and should be awarded no more than Level 1.</p>

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	<p><i>The current debate about whether to staff the growth by higher internal employment or by using sub-contractors will also be affected. The decision may well be made for SRCL if it is unable to retain/attract suitable staff.</i></p> <p><i>Higher labour turnover also generally leads to higher costs. A constant influx of new workers will have an impact on the other workers in the business, as they may need to take on more work and responsibility whilst the new staff become accustomed to SRCL's methods. Bearing in mind that labour costs make up 50% of SRCL's cost of sales, any increase in labour costs, even in the short-run, will have a significant impact on the profit and loss account.</i></p> <p><i>Another related problem to a high labour turnover is that quality may be compromised, especially in the short-run. This focus on quality is central to SRCL's strategy and success and could seriously affect its future growth plans. There is also a chance that the already rising waste levels will be affected.</i></p> <table border="1" data-bbox="309 882 1182 1225"> <tbody> <tr> <td data-bbox="309 882 443 986">Level 4</td> <td data-bbox="443 882 1037 986">Some evaluation shown by concentrating on the extent to which rising labour turnover will affect SRCL.</td> <td data-bbox="1037 882 1182 986">(16-12)</td> </tr> <tr> <td data-bbox="309 986 443 1054">Level 3</td> <td data-bbox="443 986 1037 1054">Some analysis of how the rising labour turnover at SRCL will affect its activities.</td> <td data-bbox="1037 986 1182 1054">(11-7)</td> </tr> <tr> <td data-bbox="309 1054 443 1193">Level 2</td> <td data-bbox="443 1054 1037 1193">Some understanding shown of how a rise in labour turnover may affect a business, without any attempt to discuss the context of SRCL.</td> <td data-bbox="1037 1054 1182 1193">(6-3)</td> </tr> <tr> <td data-bbox="309 1193 443 1225">Level 1</td> <td data-bbox="443 1193 1037 1225">Some knowledge of labour turnover.</td> <td data-bbox="1037 1193 1182 1225">(2-1)</td> </tr> </tbody> </table>	Level 4	Some evaluation shown by concentrating on the extent to which rising labour turnover will affect SRCL.	(16-12)	Level 3	Some analysis of how the rising labour turnover at SRCL will affect its activities.	(11-7)	Level 2	Some understanding shown of how a rise in labour turnover may affect a business, without any attempt to discuss the context of SRCL.	(6-3)	Level 1	Some knowledge of labour turnover.	(2-1)		<p>Reference to how the rising labour turnover will affect SRCL's decision to expand would be one way of achieving Level 4</p> <p>Reference to the significance of labour costs to this company (backed up by evidence from the case study) would be Level 4</p> <p>It is possible that some candidates may offer textbook suggestions about how rising labour turnover can offer advantages to a firm. However, it is important that, in this case, they are realistic and balanced against the clear problems which SRCL will encounter. A well balanced discussion should be awarded at Level 4.</p>
Level 4	Some evaluation shown by concentrating on the extent to which rising labour turnover will affect SRCL.	(16-12)													
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Question	Expected Answers	Marks	Rationale
3	<p>With reference to Tables 1 & 2, discuss what SRCL's different stakeholders are able to learn about the business from looking at its final accounts.</p> <p><i>The balance sheet shows a firm's assets and liabilities at a snapshot in time.</i></p> <p><i>Banks and other lenders will be interested in the firm's working capital (net current assets) to see that SRCL has enough cash to keep the firm going. SRCL's working capital has increased hugely between 2009 and 2010. However, it must be remembered that this data will be changing on a daily basis and it is necessary to view working capital for a firm over a much longer period.</i></p> <p><i>Lenders will also be keen to see how much debt a firm already has, as this will affect its ability to take on further debt as well as affecting the interest payable each year which will have an impact on profit. Long-term liabilities have gone up by a factor of 20, presumably caused by the recent investment in technology. Overall, this may have an impact on future profits and SRCL's ability to raise further cash, which may affect Joe's plans for further growth. Current liabilities are creditors which need to be paid in the short-run, but it appears there has been no significant change here.</i></p> <p><i>Debtors have increased by over 15%. This may be of importance to the managers as it may suggest that tighter control of invoices is necessary.</i></p> <p><i>The profit and loss account is of most use to the owners, managers and employees. All can see how well the business is growing. In SRCL's case, turnover has increased by 14%. It is also possible to see how the firm is moving towards the targets set by Joe. However, whereas cost of sales has increased in line with revenue growth, expenses have fallen by 18%. This has led to a greater improvement in operating profit than in gross profit. (However, it is difficult to know how each stakeholder may feel about this, without knowing why/how expenses have fallen - this</i></p>	[16]	Candidates MUST refer to at least 2 stakeholders to access any higher than the bottom mark in Levels 3 and 4.

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	<p><i>may be explored by candidates.)</i></p> <p><i>Employees will feel happier that the firm is now making a profit again and the senior managers (who are also the shareholders) will feel their financial stake in the company is safer. It may even be possible to pay a dividend from any retained profits.</i></p> <p><i>Answers may recognise other information which will help to inform stakeholders and/or the fact that the information published is very brief and, particularly with the balance sheet, very changeable on a day-to-day basis. This should be rewarded at Level 3 if analysed or Level 4 if used as evaluation.</i></p> <table border="1" data-bbox="309 644 1178 1054"> <tbody> <tr> <td data-bbox="309 644 439 778">Level 4</td> <td data-bbox="439 644 1037 778">Some evaluation shown by supporting any judgement made about what SRCL's stakeholders are able to learn about the company's performance.</td> <td data-bbox="1037 644 1178 778">(16-12)</td> </tr> <tr> <td data-bbox="309 778 439 884">Level 3</td> <td data-bbox="439 778 1037 884">Some analysis of what SRCL's stakeholders are able to learn from the final accounts.</td> <td data-bbox="1037 778 1178 884">(11-7)</td> </tr> <tr> <td data-bbox="309 884 439 987">Level 2</td> <td data-bbox="439 884 1037 987">Some understanding shown of how final accounts can be used, without any attempt to discuss the context of SRCL.</td> <td data-bbox="1037 884 1178 987">(6-3)</td> </tr> <tr> <td data-bbox="309 987 439 1054">Level 1</td> <td data-bbox="439 987 1037 1054">Some knowledge of what final accounts can be used for.</td> <td data-bbox="1037 987 1178 1054">(2-1)</td> </tr> </tbody> </table>	Level 4	Some evaluation shown by supporting any judgement made about what SRCL's stakeholders are able to learn about the company's performance.	(16-12)	Level 3	Some analysis of what SRCL's stakeholders are able to learn from the final accounts.	(11-7)	Level 2	Some understanding shown of how final accounts can be used, without any attempt to discuss the context of SRCL.	(6-3)	Level 1	Some knowledge of what final accounts can be used for.	(2-1)		<p>Candidates may just refer to <u>either</u> the profit & loss account <u>or</u> the balance sheet</p> <p>Ratio analysis, if used to support a point being made, should be rewarded at Level 3. However, it is not required to access any level of the mark scheme.</p>
Level 4	Some evaluation shown by supporting any judgement made about what SRCL's stakeholders are able to learn about the company's performance.	(16-12)													
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4	<p>Discuss ways in which SRCL could reduce its waste levels.</p> <p><i>The term 'waste' can be used to describe anything which is inefficient in the production process. It can include overproduction, poor transportation, excess stock levels or scrap/reworking of products.</i></p> <p><i>One area which appears to have had an impact on rising waste levels at SRCL recently has been the automation of some of the work. It would appear that some of the workers are having problems coming to terms with this and there is evidence that more training is needed. In extreme cases, this may still not help. The story of Stan who 'struggles with technology' may mean he will never come to terms with the machine. SRCL needs to recognise that it may be a better option to find other work for people such as Stan to carry out, otherwise there is a chance they will leave the business. This is another clear example of waste; highly trained specialist workers who leave, meaning that SRCL's investment in human capital is lost.</i></p> <p><i>Another aspect in which waste seems to be happening is in the bespoke stone carvings that are worked on in the workshop and then transported to the job site. The fact that on many occasions the piece has to be returned to the workshop (sometimes more than once) means both time and costs are being wasted. Would it not be possible for the stonemason to travel with the item and then make any necessary minor modifications on site? Alternatively, the stonemason could visit the site before the job is started to ensure he/she knows the setting that the piece will end up in. This may cost more money in the short-run, but should work out a lot cheaper in the long-run.</i></p> <p><i>Does the problem lie with Clare? She is responsible for the co-ordination between the workshop and the site. Is there a need to support Clare via training or an assistant?</i></p> <p><i>Even if waste cannot always be reduced there may be something which minimises the cost of the waste. For example, the large amount of waste</i></p>	[16]	It is important to recognise that many of the textbook ideas about waste, and how to improve it, do not apply to SRCL.

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	<p><i>stone from the new machine could be sold to gardeners or builders as shingle, or crushed to form stone powder which has many uses. Ultimately, this would allow SRCL to recover some additional income from the waste by-products.</i></p> <p><i>A common suggestion to improve waste levels is to improve quality. However, it is difficult to see how this will help SRCL as it already has high quality standards, including a number of significant awards.</i></p> <table border="1" data-bbox="309 507 1182 954"> <tr> <td data-bbox="309 507 443 643">Level 4</td> <td data-bbox="443 507 1037 643">Some evaluation shown by assessing the appropriateness of methods suggested for SRCL, with any judgements being supported.</td> <td data-bbox="1037 507 1182 643">(16-12)</td> </tr> <tr> <td data-bbox="309 643 443 746">Level 3</td> <td data-bbox="443 643 1037 746">Some analysis of how SRCL can reduce waste levels, with specific reference to the context available.</td> <td data-bbox="1037 643 1182 746">(11-7)</td> </tr> <tr> <td data-bbox="309 746 443 882">Level 2</td> <td data-bbox="443 746 1037 882">Some understanding shown of how waste levels may be reduced in a business, without any attempt to discuss the context of SRCL.</td> <td data-bbox="1037 746 1182 882">(6-3)</td> </tr> <tr> <td data-bbox="309 882 443 954">Level 1</td> <td data-bbox="443 882 1037 954">Some knowledge about waste and/or policies to reduce it.</td> <td data-bbox="1037 882 1182 954">(2-1)</td> </tr> </table>	Level 4	Some evaluation shown by assessing the appropriateness of methods suggested for SRCL, with any judgements being supported.	(16-12)	Level 3	Some analysis of how SRCL can reduce waste levels, with specific reference to the context available.	(11-7)	Level 2	Some understanding shown of how waste levels may be reduced in a business, without any attempt to discuss the context of SRCL.	(6-3)	Level 1	Some knowledge about waste and/or policies to reduce it.	(2-1)		<p>It is likely that better answers will recognise that waste refers to more than just physical waste and any suggestions will be relevant to a business which is generally involved in bespoke output in a very specialised market.</p>
Level 4	Some evaluation shown by assessing the appropriateness of methods suggested for SRCL, with any judgements being supported.	(16-12)													
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Question	Expected Answers	Marks	Rationale
5*	<p>To what extent will promotion be the most important component of SRCL's marketing mix if it decides to become a main contractor in the house building industry? (Lines 139-142)</p> <p>The marketing mix is made up of promotion, price, product and place. Candidates may approach this question in a number of ways but should at some point discuss how promotion may need to change if SRCL enters the house building market as a main contractor. Better answers will attempt to show that other aspects of the marketing mix are important.</p> <p>Joe appears to be a little naïve by expecting that it is only really the promotion aspect that which 'tweaking' before SRCL enters this new market. Clearly, changes will be necessary here as a new market will mean different customers. If the customers placing orders for a high-value housing are individuals from the fields of sport and business, they are unlikely to be aware of a firm which is currently only really known to the restoration market. Equally, if an intermediary is used, then also unlikely to be that familiar with a company such as SRCL – it is more likely to go with a 'standard' house builder such as Barratt or Redrow. Joe's comment that "we are known in the industry to a certain extent and so it should not be too problematic" is rather negated by this. SRCL will need to promote itself to the new market in an appropriate way.</p> <p>Price may be more of an issue in the house building market. Many of the current restoration projects will be financed from the public sector or charities. Also, as they are such important jobs that may need to last for over a hundred years, price may be less important. However, even though SRCL is talking about high-value housing, in the recent economic climate these customers will still be more price sensitive, especially when there are other potential competitors.</p> <p>Place will certainly be more of a factor. At present, most of SRCL's business is done in and around London and, hence, very close to its three bases. However, house building is much more geographically</p>	[20]	

Question	Expected Answers	Marks	Rationale
	<p>spread out and may need more regional depots to be set up, especially as SRCL will have to be dealing with many locally based contractors to get the houses built. Better answers may argue that these issues surrounding place will have to be dealt with in any case if SRCL also increases the geographic coverage of its core business.</p> <p>As previously stated, SRCL has always competed on quality rather than price in the past. This means that the product component of the marketing mix may present less of a challenge if SRCL's proposed strategy goes ahead. The high emphasis placed on quality and safety, as shown by SRCL's awards and certificates, will work equally well in the high-value house building industry. Candidates may also talk about the additional problems of managing the house building contracts for SRCL, as it does not have real experience of doing this, as a product-based factor. It could be perfectly feasible to argue that this is actually the most important factor.</p> <p>Better answers, which should be awarded at Level 4, may conclude that promotion is or is not the most important component of the marketing mix. However, they will have done this having analysed at least one other aspect of the marketing mix.</p>		<p>Watch out for candidates that answer a different question, "Should SRCL enter the house building market as a main contractor". This is unlikely to achieve above L2.</p> <p>Level 4 answers may conclude that promotion is or is not the most important component of the marketing mix. However, they will have done this having considered at least one other aspect of the marketing mix. For a mark of default or above they must have come to a decision as to the relative importance of promotion.</p>

<p>Level 4</p>	<p>Some evaluation shown by justifying whether promotion is or is not the most important issue for SRCL when moving into the house building market.</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>(20-15)</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, the final mark given.</p>
<p>Level 3</p>	<p>Some analysis of appropriate issues surrounding SRCL's marketing mix as a result of its expansion into house building.</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>	<p>(14-9)</p>	
<p>Level 2</p>	<p>Some understanding shown of how changes to the marketing mix may be necessary and/or affect a business, without any attempt to discuss the context of SRCL.</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>(8-4)</p>	
<p>Level 1</p>	<p>Some knowledge of promotional methods and/or the marketing mix.</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>	<p>(3-1)</p>	

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