

Business Studies

Advanced Subsidiary GCE

Unit **F291**: An Introduction to Business

Mark Scheme for June 2011

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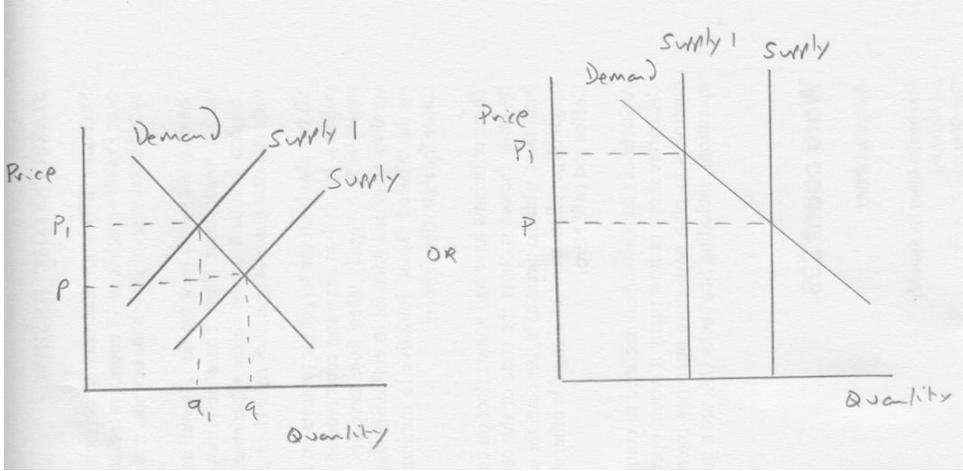
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Question		Expected Answer	Mark	Additional Guidance
1	(a)	<p>Starbucks is regarded as a large business. Identify two ways to measure the size of a business.</p> <p>One mark for each of two correct identifications.</p> <ul style="list-style-type: none"> • Profit/Profit Levels • Turnover • Sales Volume • Employees • Branches/outlets/shop/factories • Market capitalisation/Stock market value • Capital employed/value of assets/"worth of the business". 	[2]	<p>Answers do NOT have to be in the context of Starbucks.</p> <p>Do not allow the following: Market Share, "Size of Assets", number of shares, or number of shareholders.</p> <p>Ensure that points are different eg do not accept sales volume <u>AND</u> sales value or number of offices <u>AND</u> number of shops.</p>
	(b)	<p>Large businesses often gain economies of scale. Outline two economies of scale from which Starbucks might benefit.</p> <p>Mark as 2 x (1+1)</p> <p>The suggestion in brackets is the sort of development required for the second mark.</p> <ul style="list-style-type: none"> • Buying/purchasing ("Starbucks can buy in bulk and get lower costs/a better deal") • Financial ("Starbucks can get better deals on loans"/easier access to loans") • Managerial ("Starbucks can get the best managers who make staff more efficient/can make better business decisions") • Risk bearing ("Starbucks operates in different markets/spreads risk and gets revenue from different sources") • Marketing ("Starbucks can advertise lots of their products at once/more cheaply") • Technical/Technological ("Starbucks can buy more efficient machinery/technology"). 	[4]	<p>Allow reference to Starbucks 'as a whole' (nationally or internationally) or at branch level.</p> <p>Allow valid references to external economies of scale eg "good infrastructure in area can lower (transport) costs".</p> <p>Do not allow references to "Production economies".</p>

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(c)	<p>“Starbucks operates in an oligopolistic market. “ (lines 17-18) State two characteristics of an oligopolistic market.</p> <p><i>NB Technical micro-economic terminology and knowledge is not necessary. Accept answers such as:</i></p> <ul style="list-style-type: none"> • (A market dominated by) a few firms • (The firm's have) a large market share/high concentration ratio • Oligopolists have some “market power/can influence/set prices” • There may be/possible collusion (on prices/output) by firms • firms are interdependent • There is/may be non price competition • Prices (may be) rigid/“sticky” • Barriers to entry/“They may deter new entrants”/“Hard to break into market”. <p>2 x 1 mark</p>	[2]	<p>Also accept comments which are applicable to oligopoly but not unique to it such as:</p> <ul style="list-style-type: none"> • (Likely to be) large firms • Prices may be higher than in a competitive (accept “normal”/usual, etc) market • May not act in the interest of the consumer • May be inefficient (“oligopolists do not always keep costs down”) • Can get economies of scale.

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(d)	<p>‘Without a clear business plan, it risked losing everything.’ (Lines 7- 8). Outline two ways in which Starbucks could benefit from clear business planning.</p> <p>Accept any references to “the planning process” eg constructing a plan will entail analysing the business situation (via SWOT/PEST etc) and so may help avoid the implied mistakes from the diversification into books/films mentioned in lines 5/6.</p> <p>Planning will also:</p> <ul style="list-style-type: none"> • help ensure SB has the necessary resources (to operate effectively) eg employees, finance, cash flow • help raise finance (for the growth referred to in line 22)) – it will be essential to show to potential investors • provide a series of targets to aim for – “so that everyone knows what they are expected to do”/”and this can (help) motivate employees” • provide a means of reviewing progress (towards the business’ objectives) and so SB can then take action to ‘get back on track’ if necessary. <p>Mark as 2 x (1 +1)</p>	[4]	<p>Do NOT allow candidates to ‘build up’ marks as a series of 1+1+1+1 single points. It MUST be marked as 2 x (1 + 1)</p> <p>One mark for the nature of the benefit plus an additional mark for some development</p> <p>It is not essential that candidates answer in the context of SB</p>

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2	<p>Analyse one likely effect on Starbucks of a rise in the cost of coffee. You may draw a graph as part of your answer if you like, but it is not necessary in order to gain full marks.</p> <p>On a demand and supply diagram a bad harvest will change the conditions of supply (nb technical terms are not necessary). This is shown by a shift of the supply curve to the left which increases the price of the coffee (ie the cost to Starbucks). This would most likely be reflected in Starbucks raising the price to the consumer and the quantity of products sold to fall.</p>  <p>For Level 1 Accept simple statements such as: “equilibrium/demand/supply/price/quantity will change”.</p> <p>For Level 2 accept comments such as “Raw material/coffee costs will go up” and/or “the quantity of cups of coffee sold etc will fall”.</p> <p>For Level 3 award the level for simple statements, <i>accompanying a diagram or not</i>, of the effect on Starbucks such as:</p> <p>“Starbucks is likely/will have to/probably going to charge more as its costs have risen” “Starbucks profits/revenue may rise/fall/stay the same depending on the</p>		<p>Where a candidate starts with “The price increases and so SB will lose customers” is only Level 2 as no reason for the price change has been given.</p> <p>For Level 3 a clearly developed sequential implication/consequence for SB is required. eg “SB’s costs will rise, so they will have to increase price in order to maintain profit levels” OR “SB’s costs will rise, and if they don’t increase price then profit levels will fall”.</p> <p>For L3 it must be clear that the terms ‘cost’ and ‘price’ are NOT being used as if they were synonymous.</p> <p>If the correct diagram (left) is drawn with no accompanying written analysis this is still a Level 2 answer. Award four marks. But to achieve Level 3 an answer needs to go beyond simply a written commentary of the diagram.</p> <p>If there is a diagram and an explanation but the comments on the likely effect(s) are correct but the diagram is wrong (eg showing a fall in price), then <u>ignore the diagram</u> and award the appropriate mark for what</p>

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		<p>customer response to the increased price “If Starbucks does not increase the price then its profit (margins) will (probably) fall” “The price change to customers will depend on the extent of the rise in cost to Starbucks”</p> <p>Also allow comments on the lines of “Starbucks will now/may now also sell fewer complementary products” – although the actual term does not have to be used.</p> <p>Level 3: Some analysis of the effect(s) on Starbucks. (6-5) Level 2: Understanding demonstrated of concepts involved. (4-3) Level 1: Appropriate concepts (supply, demand, & price) identified (2-1)</p>	[6]	has been written.

Question	Expected Answer	Mark	Additional Guidance
3	<p>“Starbucks continues to plan new store openings internationally, including in the UK.” (lines 21-22) Analyse two human resource implications of this expansion.</p> <p>The specification makes reference to “the significance of the workforce” and workforce planning, recruitment, selection, training so accept references to these such as:</p> <ul style="list-style-type: none"> • New managers and ‘frontline’ staff will have to be employed to manage the stores – <i>how are these best to be recruited and retained? What are the HRM cost implications associated with recruitment?</i> • These new employees will have to be trained properly. The market is one with other oligopolistic competitors and customers expect a good service and product knowledge or they may go elsewhere • New employees have to be motivated. <i>What might be done to achieve this?</i> • As the number of outlets grows then senior management at Starbucks will have extra branches to monitor – <i>implications of this? More employed?</i> • The growth will indeed need to be planned by senior Starbucks managers – <i>Opportunity cost to their time?</i> <p>Level 3: Some analysis of the human resource management implication(s) to Starbucks. (10-7) Level 2: Some understanding of the issues demonstrated (6-3) Level 1: Knowledge of human resource issue(s) (2-1)</p>	[10]	<p>Answers must be in context for Level 3. There must be some analysis ie a clear link between <i>SB’s expansion</i> and the HRM implications of it for Level 3.</p> <p>Explicit HRM implications of SB opening new stores internationally (line 22) are also likely to attract credit at Level 3.</p> <p>Simply stating “SB will need to train new employees which will be expensive” is rewardable at Level 2. Level 3 responses for this point will be along the lines of “SB will need to train new employees and as they have a wide range of products there is a lot to learn and so this training will be expensive”.</p> <p>Two factors analysed award 9/10 marks only.</p> <p>One factor analysed award 7/8 marks only.</p> <p>Two factors explained award 5/6 marks only.</p> <p>One factor explained award 3/4 marks only.</p>

Question	Expected Answer	Mark	Additional Guidance
4	<p>Discuss the extent to which Starbucks should be concerned with ethical issues.</p> <p><i>Candidates may well answer within ‘the stakeholder framework’ which is perfectly acceptable, but there is no requirement for them to do so.</i></p> <p>Reputation – and, therefore, sales, revenue and profit. Being ethical might give it an ‘edge’ over the competition. Consumers are increasingly aware of ethical issues and may change spending habits in favour of ‘an ethical Starbucks’. Poor publicity will bring the reverse.</p> <p>Recruitment issues (at managerial and ‘frontline’ level) – ethics might be the deciding factor in where to work if remuneration packages in other similar retailers are similar.</p> <p>Loss of suppliers in the long run – if these are treated poorly. There are already potential problems with supply due to bad harvests. Suppliers may ‘switch’ to other businesses (once existing contracts have expired) leaving Starbucks with further problems</p> <p>Possibility of banks/shareholders more willing to finance Starbucks – because they want to be seen to be “supporting an unethical business”. Vice versa.</p> <p>There is the cost of ‘being ethical’ to be considered. Acting ethically with suppliers costs are likely to be higher and possibly profits lower – with a potential negative impact on shareholders, share price, and employees in the short term at least. What are the (longer term) resource implications of the ‘Shared Planet’ initiative? Opportunity cost of this? Also ‘being ethical’ has to be driven from the top; if employees further down the hierarchy feel it is all only a marketing ploy they will not be dedicated to it and the policy will not work. Once a business declares itself as ‘ethical’ it will be monitored by pressure groups who will quickly put negative publicity all over the Internet if the policy is breached.</p>		<p>A Possible route into Level 4 would be: To consider which issue(s) will be the most significant and why.</p> <p>A consideration of costs/benefits of acting ethically in the long and short run.</p>

Question			Expected Answer	Mark	Additional Guidance
			<p>Level 4: Some evaluation of the extent to which Starbucks should be concerned. (14-11)</p> <p>Level 3: Some analysis of the ethical issues affecting Starbucks. (10-7)</p> <p>Level 2: Some understanding of the issues(s). (6-4)</p> <p>Level 1: Ethics defined/some ethical principle(s) stated. (3-1)</p>	[14]	

Question	Expected Answer	Mark	Additional Guidance
5	<p>Other than ethical issues, evaluate the factors that might determine the future success of Starbucks.</p> <p><i>The answer is likely to be drawn from several sections of the specification, eg "What businesses need"/"Objectives"/"The market" and "Other influences". Possibilities might, therefore, include:</i></p> <ul style="list-style-type: none"> • Adequate/appropriate finance for the growth • Adequate cash flow – accept “enough money to pay the bills”, etc • The ‘right staff’ at ‘frontline’ and managerial level. Also high employee morale/motivation • Market research – what do customers actually want from Starbucks? • Appropriate marketing (NB detailed knowledge NOT required). Developing a USP – some way of differentiating itself from competitors. Meeting customer needs in terms of prices charged, products demanded, etc • Ability to respond to ‘the market’, eg competitors’ actions, changes in income, changes in supply, etc • Appropriate (ie SMART) strategic and tactical objectives • A clear business plan • Regular evaluation of progress towards objectives • Taking ‘appropriate risks’ in order to succeed, eg new outlets “in the right place” • Ability to respond to any technological changes • Ability to respond to demographic (and, therefore, consumption) changes • Closure of loss making shops (line 21-22) should help cash flow problems, improve profits, etc • Similarly if new stores are opened which DO generate (“lots of”) revenue and profit this will contribute to Starbucks’ success. 		<p>NB Accept answers for Starbucks as ‘a corporate entity’ (nationally or internationally) or/and as ‘an individual outlet’.</p> <p>Do NOT accept references to Starbucks ‘Shared Planet Initiative’ as this is an ethical consideration.</p> <p>Allow also references to the state of the economy and the consequences for the demand for Starbucks’ products which might follow from it. NB Detailed knowledge not required on F291.</p> <p><i>Candidates could also discuss what is meant by ‘success’. What constitutes ‘success’ for Starbucks is likely to change over time as objectives evolve.</i></p> <p>A possible route into Level 4 would be: a consideration of which factor(s) will be the most significant. And/or the time scale involved.</p>

Question	Expected Answer	Mark	Additional Guidance
	<p>Level 4: Some evaluation, eg supported judgment concerning the factor(s) which might determine Starbucks' future success. 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. (18-14)</p> <p>Level 3: Some analysis of the factor(s) which might determine Starbucks' future success. 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. (13-9)</p> <p>Level 2: Some understanding of the issues(s). 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. (8-5)</p> <p>Level 1: Knowledge recalled about factors influencing a business' success. 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. (4-1)</p>	[18]	

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