

# **Business Studies**

Advanced Subsidiary GCE

Unit **F292**: Business Functions

## **Mark Scheme for June 2013**

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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.

OCR will not enter into any discussion or correspondence in connection with this mark scheme.

## Annotations

Annotation	Meaning
	Correct
	Incorrect
	Not sure what the candidate is trying to say or it does not make sense.
<b>BOD</b>	Benefit of doubt given
<b>L1</b> <b>L2</b> <b>L3</b> <b>L4</b>	Levels of response awarded at this point
<b>OFR</b>	Own figure rule
<b>TV</b>	Too vague
<b>NAQ</b>	Not answered the question
<b>NUT</b>	Not used the context (generic)
<b>REP</b>	Repetition. The candidate has merely restated what has already been said and so no further credit given.
<b>SEEN</b>	The page has been seen. This can be used on pages where no other annotation is appropriate and <b>MUST</b> be placed on each blank page

**EVERY PAGE, INCLUDING BLANK PAGES (use the SEEN annotation), MUST HAVE SOME ANNOTATION**

Question		Answer	Marks	Guidance
1	(a)	<ul style="list-style-type: none"> <li>• job <u>or</u> one-off production</li> <li>• batch production</li> <li>• flow <u>or</u> line <u>or</u> continuous <u>or</u> mass production</li> <li>• cell production.</li> </ul>	2	<p>Make sure that the two methods are different.</p> <p>Accept any other names for these methods, as long as they appear to be correct.</p> <p><b>Do not</b> accept Lean production. This is <b>not</b> a method per se but a collection of ideas for increased efficiency.</p>
	(b)	To make a job more interesting/motivating/rewarding by increasing the range or responsibility of the job.	2	<p>Only a definition is needed, it is not necessary to provide an explanation.</p> <p><b>2 marks</b> – An answer which states a suitable change (e.g. more responsibility) and the impact on the employee (e.g. improves motivation).</p> <p>(Allow a second mark for a correct example)</p> <p><b>1 mark</b> – an idea it is about increasing the range or responsibility of a job</p> <p><b>No reward</b> for an answer that <b>ONLY</b> says it is a method of improving motivation, or it is motivational.</p>
	(c)	<p>Any TWO from:</p> <ul style="list-style-type: none"> <li>• allows the firm to sell more products</li> <li>• helps to reduce costs/improve efficiency</li> <li>• gaps in the market can be better identified</li> <li>• allows a firm to offer specific versions of the same product/can be more customer orientated</li> <li>• helps to identify or satisfy a niche market/can target a specific market/better able to target any marketing</li> <li>• allows market research to be more specific</li> <li>• can allow different prices to be set for different customers</li> </ul>	2	<p>One mark for each correct identification, up to a maximum of two identifications.</p> <p>Make sure that the two benefits are clearly different.</p> <p><b>Do not</b> reward methods of segmentation.</p>

Question		Answer	Marks	Guidance
	(d) (i)	Maximum stock level = 1,000	1	This is the only acceptable answer.
	(ii)	Buffer stock level = 200	1	This is the only acceptable answer.
	(iii)	Average stock usage = $800/4 = 200$	1	Accept OFR of answer to (i) minus answer to (ii) divided by 4.
	(iv)	Re-order level = 400	1	This is the only acceptable answer.
	(e)	<ul style="list-style-type: none"> <li>enables the firm to make decisions – knowing its profit may help it decide whether it can invest in growth or change its plans</li> <li>helps monitor progress against targets /plan / budget for the future – based on comparisons with previous years / or other firms</li> <li>helps to identify inflows/outflows of money (cash-flow) – it can help to identify where costs need to be reduced or revenues increased</li> <li>employees can see the progress of the firm – this may affect their future wage demands</li> <li>helps investors decide whether to invest – accounts will show whether they will receive a return on their investment</li> <li>inland revenue/HMRC can assess whether correct tax has been paid – allows to identify firms which do not</li> <li>it is a legal requirement for companies – this will mean that the firm can avoid prosecution / the Government can have access to the data</li> <li>suppliers may want to check out customers – they may want to ensure that the firm has sound finances before offering credit facilities</li> <li>provides banks with information – this may be necessary to obtain a loan or overdraft</li> <li>allows comparisons to be made with competitors – gives an idea of what changes (e.g. objectives) to make.</li> </ul>	4	<p>Look for the actual reason (1 mark) along with a brief explanation or example (1 mark).</p> <p>Ensure that the two reasons are different.</p> <p>Answers may be specific to one particular part of the final accounts (e.g. P&amp;L or Balance Sheet or Cash-Flow) or final accounts in general.</p> <p>Any answers referring to how the accounts tell the business about different products or parts of the business should not be rewarded.</p>

Question	Answer	Marks	Guidance
(f)	<ul style="list-style-type: none"> <li>• costs are kept down – fewer managers means that payrolls should be lower</li> <li>• gives other employees more responsibility- this can be motivational</li> <li>• decision-making may be quicker – as there are fewer levels of hierarchy</li> <li>• communication may improve – as there are fewer levels of management for information to travel through</li> <li>• communication may worsen – due to a wider span of control</li> <li>• high initial costs – there may be redundancy costs and efficiency may go down in the short-run</li> <li>• span of control will increase – this may put pressure on remaining managers leading to lower motivation or work standard</li> <li>• job security may be reduced – as employees see people leaving the firm and fear they may be next</li> <li>• fewer promotional opportunities – which may be demotivational and/or lead to higher labour turnover</li> <li>• management will be closer to the shop floor – decisions may be better.</li> </ul>	4	<p>Look for the naming of the consequence (1 mark) along with a brief explanation or example (1 mark).</p> <p>Ensure the two consequences are different.</p>
2	<p>(a)</p> $\text{Break-even} = \frac{\text{Overheads}}{\text{Unit contribution}} \quad [1]$ $= \frac{\text{£5,720}}{\text{£610} - \text{£500}} \quad [2]$ $= \underline{\underline{52}} \quad [1]$ <p style="text-align: right;"><b>OFR</b></p>	4	<p>An answer of 52 with no working gains full marks.</p> <p><u>General guideline for marking</u></p> <p>Correct formula (given or implied) = 1 mark</p> <p>Correct unit contribution = 1 mark</p> <p>Overheads / unit contribution = 1 mark</p> <p>Correct answer = 1 mark (OFR possible)</p> <p>Answers must be in volume not value terms</p> <p>If the answer is given per month then a <b>maximum</b> of three marks can be awarded</p>

Question	Answer	Marks	Guidance
			If correct formula given and the following occurs $5720/500 = 11.44 (12) = 3$ marks  If NO correct formula = 0 marks

Question		Answer	Marks	Guidance	
				Content	Levels of response
2	(b)	<p>Break-even level of output occurs where revenue covers total costs. By using break-even, a business can quickly and easily identify whether a particular product will be profitable or not. It also allows 'what if' scenario planning.</p> <p>However, there are a number of issues in particular for MSDL. These <u>include</u>:</p> <ul style="list-style-type: none"> <li>• It assumes that all products produced are sold. Given the new market which MSDL is entering, it cannot be sure whether this will be the case.</li> <li>• Prices are constant. However, given the new products it may be necessary to alter prices to ensure sales. Also, Tony is suggesting discounts for bulk orders. This will affect break-even levels considerably. Even the likely profit margins are uncertain.</li> <li>• Costs are assumed to be fixed. However, the case study mentions recent increases in raw material costs and 'unpredictable fluctuations' in the coming year. How will MSDL build these into the break-even analysis? Also, what about exchange rate changes? There may also need to be a further increase in costs if the workers get their way and receive higher wages or a bonus.</li> <li>• These are new products. MSDL has limited knowledge of this new market and there is no previous data on which to base forecasts. Therefore, the whole process will be less accurate than with its established products.</li> <li>• Another worry is the very little market research which has been carried out. The phrase 'setting prices has involved a lot of guesswork' does not instil confidence!</li> </ul>	16	<p>L1 – What is break-even.</p> <p>L2 – What can break-even be used for or its advantages &amp; disadvantages</p> <p>L3 – How will break-even work, or not, for MSDL (Needs to refer to some issues from the case study <b>and</b> show an understanding of break even).</p> <p>L4 - Answer recognises that either the process is or is not useful for MSDL.</p> <p><b>One L2 annotation = 3, 4 or 5 marks</b> <b>Two L2 annotations = 5 or 6 marks</b></p> <p><b>One L3 annotation = 7, 8 or 9 marks</b> <b>Two L3 annotations = 9, 10 or 11 marks</b></p> <p><b>One L4 annotation = 12, 13 or 14 marks</b> <b>Two L4 annotations = 14, 15 or 16 marks</b></p>	<p><b>Level 4 (16–12 marks)</b> Some evaluation shown by making a justified judgement about whether or not break-even analysis is a useful tool for MSDL.</p> <p><b>Level 3 (11–7 marks)</b> Some analysis of case evidence to show why break-even analysis is or is not useful for MSDL.</p> <p><b>Level 2 (6–3 marks)</b> Some understanding shown of how break-even analysis can be used or the factors affecting break-even. <b>No context required.</b></p> <p><b>Level 1 (2–1 marks)</b> Some knowledge of break-even or the factors affecting it.</p> <p>The bottom mark in each level <b>MUST</b> only be used for a BOD answer at that level.</p>

Question			Answer	Marks	Guidance	
					Content	Levels of response
			<p>Candidates may argue that at least the break-even analysis gives MSDL a starting point and that it should be conservative in believing the forecasts. Also, over time, the calculations may become more accurate.</p> <p>What is the alternative to break-even? It is better than nothing!</p> <p>Better answers may recognise that break-even is still a very useful technique for the established products (although given their generally bespoke nature, this may not be so) but less useful on the new products.</p> <p><i>[See Exemplar in Appendix 2 on page 18-19]</i></p>			

Question		Answer	Marks	Guidance	
				Content	Levels of response
3		<p>Tony appears to have quite a traditional leadership style; one could say that he is very autocratic. This may be typical in this sort of traditional business and it may be appropriate. However, he does appear to have created a number of problems which could have been, or will be, avoided if he changes his approach:</p> <ul style="list-style-type: none"> <li>• It would <u>appear</u> to the employees that the idea for the 'new product(s)' has been arrived at with minimal thought and consultation. The fact that little market research has been carried out does appear to suggest a low level of thoroughness, which may be indicative of weak leadership.</li> <li>• There has been no consultation whatsoever. This is clearly referred to in the case material and by Lewis' comment about having "to sell the idea" to the staff. Given the fact that many staff have been at MSDL for a long time they may have expected more consultative leadership style.</li> <li>• It appears that Tony is having to measure up to his dad and that his style is very different. He maybe should have considered this and been more careful about any changes being more gradual.</li> <li>• Tony definitely seems to be a Theory X manager. He views staff as only being interested in money and should be grateful for just having a job!</li> <li>• Tony has also managed to antagonise the supervisors and now MSDL faces the threat of industrial action, although he does not appear to take this seriously.</li> </ul> <p>Candidates should use this evidence on which to base <u>realistic</u> suggestions for change. These are likely to focus on greater consultation and a more generous opinion of the workers' motivation.</p>	16	<p>Any suggestions for changes made by the candidates must be appropriate and <u>clearly based on the contextual evidence</u>. Unsupported comments should <b>not</b> be rewarded above Level 2.</p> <p>It could be appropriate to suggest that it is too late or impossible for Tony to change. However, for this to be considered evaluative it must be supported by analytical detail.</p> <p><b>One L2 annotation = 3, 4 or 5 marks</b>  <b>Two L2 annotations = 5 or 6 marks</b></p> <p><b>One L3 annotation = 7, 8 or 9 marks</b>  <b>Two L3 annotations = 9, 10 or 11 marks</b></p> <p><b>One L4 annotation = 12, 13 or 14 marks</b>  <b>Two L4 annotations = 14, 15 or 16 marks</b></p>	<p><b>Level 4 (16-12 marks)</b> Some evaluation shown of whether any proposed changes will actually be successful and/or necessary.</p> <p><b>Level 3 (11-7 marks)</b> Some analysis shown of <b>possible changes to Tony's leadership style</b> to minimise change resistance, with specific reference to the context of MSDL.</p> <p><b>Level 2 (6-3 marks)</b> Some understanding of <b>possible changes to leadership style</b> or how changes may be made <b>No context required.</b></p> <p><b>Level 1 (2-1 marks)</b> Some knowledge of current /possible leadership.</p> <p>The bottom mark in each level <b>MUST</b> only be used for a BOD answer at that level.</p>

Question		Answer	Marks	Guidance	
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4		<p>Economies of scale occur when, in the long-run, a firm <u>increases in size</u> leading to a fall in unit costs. Internal economies of scale are only gained by that firm due to an increase in <b>its</b> size.</p> <p>The most likely economies of scale for MSDL are:</p> <p><b>Bulk-buying:</b> increased consumption of steel may lead to MSDL being able to negotiate a lower price from the supplier. If the planters and sculptures are using the same basic materials as the other products it will lead to more steel being ordered.</p> <p><b>Financial:</b> MSDL may be able to borrow money at a more preferential rate due to an increase in size. However, it could be argued that the new products are merely a short-term solution to prevent a fall in size and given MSDL's situation any lender would be unlikely to take on the risk</p> <p><b>Marketing:</b> Given the need for MSDL to now enter into more public-based marketing it may benefit from greater awareness generally, which may benefit its other products. Also, the new products are going to be sold to a wider audience (and are not so consumer specific) and so the marketing will be on a larger scale and so cheaper on a per unit basis.</p> <p><b>Managerial:</b> Tony does not currently employ anybody in sales/marketing as it is "an overhead I would rather not carry". Increased size may allow MSDL to be able to afford a specialist marketing/sales expert which could lead to more efficient marketing, market research and selling. This could benefit the whole of the business.</p>	16	<p>Any reference to <b>external</b> economies of scale must be ignored</p> <p>A Level 4 answer needs to consider the likelihood of economies of scale actually being gained and/or which one(s) is/are most likely</p> <p>A possible response may be that MSDL will not actually benefit from economies of scale as the new products are just replacing the other products so that the firm will not actually grow. This would be a Level 4 answer, as long as it is supported and justified.</p> <p><b>One L2 annotation = 3, 4 or 5 marks</b>  <b>Two L2 annotations = 5 or 6 marks</b></p> <p><b>One L3 annotation = 7, 8 or 9 marks</b>  <b>Two L3 annotations = 9, 10 or 11 marks</b></p>	<p><b>Level 4 (16–12 marks)</b> Some evaluation shown by taking a judgemental approach as to the extent of any benefits for MSDL, in the specific circumstances that it faces.</p> <p><b>Level 3 (11–7 marks)</b> Some analysis of the ways in which internal economies of scale may or may not arise as a result of the new products being successful and allowing MSDL to grow.</p> <p><b>Level 2 (6–3 marks)</b> Some understanding shown of how internal economies of scale occur. <b>No context required.</b></p> <p><b>Level 1 (2–1 marks)</b> Some knowledge of internal economies of scale.</p> <p>The bottom mark in each level <b>MUST</b> only be used for a BOD answer at that level.</p>

Question			Answer	Marks	Guidance	
					Content	Levels of response
			<b>Risk-bearing:</b> The new products should certainly help to reduce MSDL's risk of only being in one market, especially given the decreasing price competitiveness compared to overseas suppliers.		<b>One L4 annotation = 12, 13 or 14 marks</b> <b>Two L4 annotations = 14, 15 or 16 marks</b>	

Question		Answer	Marks	Guidance	
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5*		<p>Below-the-line promotion is that targeted at specific potential customers so that a firm has more control when using this compared to above-the-line promotion. Any suggestions made must be appropriate for a company such as MSDL and the new products it produces.</p> <p>The more obvious suggestions include:</p> <p><b>Sales promotions:</b> Given MSDL's entry into a completely new market, it will need to raise its profile quickly. This could be done by BOGOF deals, particularly with the planters. However, this will reduce the profit margin and Tony may not want this, given the role that these new products are to play. More realistically, some form of introductory offers may be appropriate, using money off coupons in gardening magazines or garden centres.</p> <p><b>Personal selling/Leaflets:</b> This may be difficult given the fact MSDL has no real sales team. However, given the fact that Tony appears to be targeting garden centres and office/shopping centres, Bex or someone could visit these firms to encourage them to buy/stock the products. This could be tied in with sales promotions such as discounts.</p> <p><b>Trade fairs and exhibitions:</b> For example, for garden centre and building suppliers. Also, home and garden exhibitions for the public (such as The Ideal Home Show, Chelsea Flower Show, Hampton Court, Malvern, Tatton etc.) would be very appropriate and quite cost efficient. This would also get MSDL known in the business and may lead to some free publicity.</p> <p><b>Sponsorship:</b> This would have to be appropriate to the budget available, but opportunities such as sponsoring</p>	20	<p><b>Do not forget that this question is marked out of 20</b></p> <p><b>Do not</b> reward any reference to above-the-line (advertising) promotional methods.</p> <p>Although the absence of a sales expert and/or Bex's inexperience may be contextually relevant to the question, it is not the focus of the question and answers which <u>only</u> refer to this are likely to be not answering the question.</p> <p>Better answers may recognise that:</p> <ul style="list-style-type: none"> <li>- Tony wants to do this on the cheap and with a low risk strategy</li> <li>- Bex has no real experience and there is no sales/ marketing expert</li> <li>- MSDL is entering a new market and it has no experience of selling to the public (currently b2b rather than b2c).</li> </ul>	<p><b>Level 4 (20–15 marks)</b> Some evaluation shown by making a justified judgement about the likely success of the methods suggested, in the circumstances that MSDL face.</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><b>Level 3 (14–9 marks)</b> Some analysis of how below-the-line promotional methods of can be used at MSDL, with specific reference to the context available.</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>

Question		Answer	Marks	Guidance	
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		<p>roundabouts (with one of the sculptures in the middle of it) or sponsoring garden planters in shopping centres would again raise the company's profile.</p> <p><b>Public relations/publicity:</b> Trying to get a newspaper or magazine to do a feature on the firm's new products can be a free and effective way of getting known in a new market.</p> <p><b>MSDL's own website:</b> Tony's wife has produced a website. However, how will customers (who know nothing about MSDL) know about it. The business may need to publicise the website via leaflets, direct marketing or in adverts in relevant media. <i>[Candidates need to say more than what is already said in the context, lines 104-6, to gain credit above Level 1].</i></p> <p><b>Social Media:</b> Any social media that the company has control over (e.g. Facebook) but not pop-up advertising (which is above-the-line) on such sites.</p> <p><b>Word of mouth</b> is acceptable as below the line promotion. For level 2 or higher there does need to be a link to a promotional activity which encourages 'word of mouth'.</p> <p>Although not strictly below-the-line, a clear and memorable brand name would help with much of the above. The name MSDL does not exactly create a brand image for goods being sold to the public!</p>		<p><b>One L2 annotation = 4, 5 or 6 marks</b>  <b>Two L2 annotations = 6, 7 or 8 marks</b></p> <p><b>One L3 annotation = 9-12 marks</b>  <b>Two L3 annotations = 12, 13 or 14 marks</b></p> <p><b>One L4 annotation = 15-18 marks</b>  <b>Two L4 annotations = 18, 19 or 20 marks</b></p> <p>Poor QWC cannot prevent a candidate from accessing any level, but within any individual level QWC can affect the final mark given.</p>	<p><b>Level 2 (8–4 marks)</b>  Some understanding shown of how below-the-line promotional methods can be used.  <b>No context required.</b></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><b>Level 1 (3–1 marks)</b>  Some knowledge of below-the-line promotional methods.</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>The bottom mark in each level <b>MUST</b> only be used for a BOD answer at that level.</p>

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