

**GCE**

**Business**

Unit **H031/02**: The wider business environment

Advanced Subsidiary GCE

**Mark Scheme for June 2017**

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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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## Annotations

<b>BP</b>	Blank page
	Tick
	Cross
<b>NAQ</b>	Not answered question
<b>OFR</b>	Own Figure Rule
<b>BOD</b>	Benefit of Doubt
<b>REP</b>	Repetition of case material or a previous point
<b>SEEN</b>	Noted but no credit given
<b>TV</b>	Too vague
	Unclear
<b>K</b>	Knowledge
<b>APP</b>	Application of knowledge and understanding
<b>AN</b>	Analysis
<b>E</b>	Evaluation
<b>EE</b>	Effective evaluation

Answer		Marks	Guidance
1	<p><b>Identify the four factors of production.</b></p> <p>One mark for each correct identification up to a maximum of four identifications.</p>	<p><b>4</b> (AO1 4)</p>	<p>Indicative content:</p> <ul style="list-style-type: none"> <li>• Land (do <b>NOT</b> accept raw materials)</li> <li>• Labour – allow workers/employees/staff</li> <li>• Capital/Machinery (do <b>NOT</b> accept money)</li> <li>• Enterprise or Entrepreneur</li> </ul>
2	<p><b>Explain, using an example, what is meant by the term ‘stakeholder’.</b></p> <p>Two marks for a clear definition <b>and</b> an example.</p> <p>One mark for either an answer which includes a clear definition <b>or</b> an example of a stakeholder.</p>	<p><b>2</b> (AO1 2)</p>	<p>A stakeholder is anyone who has an interest in, affected by or affects a business (1)</p> <p>For examples allow: customers, employees, directors, shareholders, managers, owners, suppliers, government, banks, competitors, pressure groups, local community, environment (1).</p> <p style="text-align: right;"><b>ARA</b></p>
3	<p><b>a Calculate the average rate of return (ARR) for the investment.</b></p> <p>Three marks for correct answer (with or without working).</p> <p>Two marks for an answer of 0.22 (with or without working)</p> <p>Two marks for correct average net cash flow (£3,333) <u>with evidence of working</u></p> <p>One mark for correct net cash flow (£10,000) <u>with evidence of working</u></p> <p><b>Percentage sign is necessary for full marks</b></p> <p>Any use of discount factors should NOT be rewarded in this question</p>	<p><b>3</b> (AO2 3)</p>	<p><math>£0 + £10,000 + £15,000 - £15,000 = £10,000</math> (1)</p> <p><math>\frac{£10,000}{3 \text{ years}} = £3,333</math> (1)      <math>\frac{£3,333}{£15,000} \times 100 = 22.22\%</math> (1)</p> <p>Answer = <b><u>22.2%</u></b> (accept 22%)</p> <p style="text-align: right;"><b>OFR</b></p>

	Answer	Marks	Guidance
	<p><b>b</b> Using the 10% discount factors shown in Table 1, calculate the net present value (NPV) of the investment.</p> <p>Three marks for correct answer (with or without working).</p> <p>Two marks for an answer which does not take off the initial cost (£19,525) [OFR]</p> <p>One mark for <u>either</u> correct discounted cash flow for years 2 &amp; 3 but without them being added together</p>	<p><b>3</b> (AO2 3)</p>	<p>£10,000 x 0.826 = £8,260 (1)</p> <p>£15,000 x 0.751 = £11,265 (1)</p> <p>£8,260 + £11,265 - £15,000 = £4,525 (1)</p> <p>Answer = <b>£4,525</b></p> <p style="text-align: right;"><b>OFR</b></p>
4	<p><b>Explain two potential costs to a business of poor employer/employee relations.</b></p> <p>One mark for each correct identification up to a maximum of two identifications, plus a further one mark for each of two explanations.</p> <p>Ensure that the two costs are clearly different <b>and</b> are costs <u>to a business</u> (as opposed to the employees, for example)</p>	<p><b>4</b> (AO1 4)</p>	<p>Indicative content:</p> <ul style="list-style-type: none"> <li>• Poor productivity <b>or</b> quality</li> <li>• Less profit</li> <li>• Increased absenteeism</li> <li>• Increased labour turnover</li> <li>• Increased recruitment costs</li> <li>• Increased likelihood of industrial action</li> <li>• Lack of communication in the business</li> </ul> <p><b>NB:</b> Poor motivation is <b>not</b> a cost but it may be an explanation for that cost <u>as long as the link is explicit</u></p> <p>The cost needs to be specific (e.g. do <b>NOT</b> allow higher monetary costs or “costs to time and money”)</p> <p>Exemplar responses:</p> <p>Employees may leave the business (1). This might lead to increased recruitment costs (1).</p> <p>The employees might engage in industrial action (1) leading to a reduction in productivity (1).</p> <p>Employees might not be happy at work (1) leading to increased absenteeism (1).</p>

	Answer	Marks	Guidance
5	<p><b>A business uses 500 cardboard boxes each day. The maximum stock level of cardboard boxes is 3000 and the minimum stock level is 1000. The lead time for reordering of the cardboard boxes is two days.</b></p> <p><b>Calculate the reorder level for cardboard boxes.</b></p> <p>Two marks for correct answer (with or without working).</p> <p>No reward for simply lifting correct numbers from the question without any attempt to get to an answer</p>	<p><b>2</b> (AO2 2)</p>	<p style="text-align: right;"><b>ARA</b></p> <p>Stock usage during lead time = <math>500 \times 2 = 1\,000</math> (1)</p> <p>(Alternatively, <math>\frac{3000 - 1000}{2} = 1000</math>) (1)</p> <p>Therefore, reorder level = <math>1\,000 + 1\,000 = 2\,000</math> (1)</p> <p>Answer = <b><u>2 000</u></b></p> <p style="text-align: right;"><b>OFR</b></p>
6	<p><b>A business selling luxury cars has calculated that the income elasticity of demand for the cars is +3.0.</b></p> <p><b>Calculate the percentage change in demand if consumer income falls by 10%.</b></p> <p>Two marks for correct answer (with or without working).</p> <p>One mark for evidence of 30% in the answer or working</p> <p>Answer must show a fall in demand for full marks</p>	<p><b>2</b> (AO2 2)</p>	<p><math>\frac{\% \text{ change in QD}}{\% \text{ change in Y}} = +3</math> (YED)</p> <p><math>\frac{X}{-10\%} = +3</math></p> <p><math>+3 \times -10</math></p> <p><math>= -30\%</math> (2)</p> <p>Answer = <b><u>- 30%</u></b> (accept a fall of 30%)</p>

	Answer	Marks	Guidance
7	<p><b>Distinguish between a secondary sector and a tertiary sector organisation.</b></p> <p>Two marks for a clear distinction between tertiary and secondary organisations.</p> <p>One mark for an answer which shows some knowledge of tertiary organisations <b>or</b> secondary organisations.</p>	<p><b>2</b> (AO1 2)</p>	<p>Exemplar response:</p> <p>Tertiary sector organisations offer <b>services</b> whereas secondary organisations are involved in <b>manufacturing</b> products (2).</p> <p>A secondary sector organisation makes things, whereas a tertiary sector organisation does not (1).</p> <p>No reward for an answer which just gives an example of each (e.g. shoes are secondary and shoe shops are tertiary)</p> <p style="text-align: right;"><b>ARA</b></p>
8	<p><b>Calculate the percentage increase in revenue for Timpson Ltd's shoe repair shops since 1987.</b></p> <p>Two marks for correct answer (with or without working).</p> <p>One mark for the change in sales (27.5m) <b>or</b> an answer still in correct decimal form (2.2 or 22) <b>or</b> an answer which divides by 40 million (68.75%)</p> <p><u>Alternative method</u></p> <p>One mark for 320% <b>or</b> an answer still in correct decimal form (3.2 or 32)</p> <p>No reward if the formula is upside down</p>	<p><b>2</b> (AO2 2)</p>	<p>£12.5m in 1987 £40m now</p> <p><math>40\text{m} - 12.5\text{m} = 27.5\text{m}</math> (1)</p> <p><u>27.5m</u> <math>12.5\text{m} \times 100 = 220\%</math></p> <p>Answer = <b>220%</b> (No sign required)</p> <p><u>Alternative method</u></p> <p><math>\frac{40\text{m}}{12.5\text{m}} \times 100 = 320\%</math> (1)</p> <p><math>320\% - 100\% = \mathbf{220\%}</math> (No sign required)</p>

	Answer	Marks	Guidance
9*	<p><b>Recommend how Timpson Ltd should respond to this negative market growth in the footwear and leather goods market. Justify your answer.</b></p> <p><b>Level 4 (10–12)</b> Candidate shows <b>strong</b> knowledge and understanding, analysis and evaluation of how Timpson Ltd should respond to negative market growth. <i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i></p> <p><b>Level 3 (7–9)</b> Candidate shows <b>good</b> knowledge and understanding, analysis and evaluation of how Timpson Ltd should respond to negative market growth. <i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i></p> <p><b>Level 2 (4–6)</b> Candidate shows <b>reasonable</b> knowledge and understanding, analysis and evaluation of how Timpson Ltd should respond to negative market growth. <i>The information has some relevance and is presented with limited structure. The information is supported by limited evidence.</i></p> <p><b>Level 1 (1–3)</b> Candidate shows <b>limited</b> knowledge and understanding of negative market growth with <b>limited or no</b> analysis and evaluation of how Timpson Ltd should respond to negative market growth. <i>The information is basic and communicated in an</i></p>	<p><b>12</b> (AO1 2) (AO2 2) (AO3 4) (AO4 4)</p>	<p>Context that could be utilised from the case includes:</p> <ul style="list-style-type: none"> <li>• Footwear and Leather Goods Repair market has reduced by 3% between 2011 and 2016.</li> <li>• Trend has forced many small operators out of the market.</li> <li>• Due to rising availability of cheap and imitation leather products, customers no longer see value in repairing items but rather replace them.</li> <li>• Disposable incomes have risen more customers have purchased more expensive luxury leather goods (i.e. expensive handbags) and this may provide opportunities in the market.</li> <li>• In the past Timpson has moved from manufacturing into the service sector.</li> <li>• Timpson Ltd has already increased its product portfolio to include mobile phone repairs, key cutting, engraving, jewellery, watch repairs, house sign creation, dry cleaning, photo processing and selling shoe care products.</li> <li>• 24.4% of the market not controlled by Timpson Ltd</li> <li>• Timpson has a strong reputation accrued through the family brand.</li> <li>• High-street locations may provide opportunities as well as locations in supermarkets.</li> </ul> <p>Responses could include:</p> <ul style="list-style-type: none"> <li>• Timpson could move into the niche market of expensive leather goods repair. This appears to be a positive income elastic market and since incomes are rising this could lead to increased revenues. However, this may restrict Timpson’s market and lead to reduced revenue. Timpson may need to significantly change the business image to interest this market, increasing marketing costs and perhaps dissuading the current market from using Timpson’s services.</li> </ul>

	Answer	Marks	Guidance
	<p><i>unstructured way. The information is supported by limited evidence and the relationship to the evidence may not be clear.</i></p> <p><b>NB</b> – award <b>maximum</b> of <b>two</b> marks for non-contextualised impacts.</p> <p><b>0 marks</b> - no response or no response worthy of credit.</p>		<ul style="list-style-type: none"> <li>• Timpson could continue to move into new markets which have positive market growth, such as key cutting etc. These markets seem to have some synergy with Timpson’s leather repair business. However, there is no data to suggest these markets are growing. Key cutting may decrease as electronic keys or keyless devices become more used.</li> <li>• Timpson could move back into manufacturing as this would appear to be a growth market (cheap and imitation leather goods). However, Timpson may struggle to compete with foreign competition.</li> <li>• Timpson could use its brand name to grow in other areas not currently exploited.</li> <li>• Although the market has negative market growth, Timpson is still the market leader, suggesting that its services are a cash cow on the Boston matrix. Timpson could exploit this market and benefit from decreased marketing costs and high revenue. There is also almost a quarter of the market that Timpson does not control. The business may be able to target this segment of the market and offset the 3% negative growth.</li> <li>• There is no evidence about the proportion that this market makes up of Timpson’s overall sales.</li> <li>• 3% over 5 years may not represent a trend – also this time period includes some years of poor economic performance in the UK economy.</li> </ul>

	Answer	Marks	Guidance
10	<p><b>Explain two benefits to Timpson Ltd of having a large market share.</b></p> <p>One mark for each correct identification to a maximum of two identifications, plus a further one mark for each of two explanations (<b>in context</b>).</p> <p>Ensure that the two benefits are clearly different</p>	<p><b>4</b> (AO1 2) (AO2 2)</p>	<p style="text-align: right;"><b>ARA</b></p> <p>Indicative content:</p> <ul style="list-style-type: none"> <li>• Economies of scale/lower unit costs</li> <li>• Brand recognition/loyalty</li> <li>• Lower competition</li> <li>• Price inelasticity/higher prices</li> <li>• Easier to obtain &amp; negotiate with suppliers</li> </ul> <p>Exemplar responses:</p> <ul style="list-style-type: none"> <li>• An advantage to Timpson Ltd of having a high market share is that they can charge higher prices for their shoe repair services (1) because there is little competition for consumers to choose between (1).</li> <li>• Timpson can benefit from marketing economies of scale (1) as they will be able to use nationwide advertising campaigns for their shoe repair services which will have a lower unit cost (1).</li> <li>• Timpson may be a more trusted brand than their competitors (1) because they have a 75.6% market share in the shoe repair industry. This could lead to increased sales (1).</li> </ul> <p style="text-align: right;"><b>ARA</b></p>
11*	<p><b>Evaluate the significance of the company's organisational structure to the stakeholders of Timpson Ltd.</b></p> <p><b>Level 4 (16–20)</b> Candidate shows <b>strong</b> knowledge, understanding, analysis and evaluation of the significance to the stakeholders of Timpson Ltd of the company's organisational structure. <i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i></p>	<p><b>20</b> (AO1 2) (AO2 2) (AO3 8) (AO4 8)</p>	<p>The significance to the stakeholders of Timpson Ltd includes:</p> <p>Employees</p> <ul style="list-style-type: none"> <li>• Branch colleagues may feel more motivated because they are trusted with control in the Timpson shops.</li> <li>• Employees may expect higher pay as they have increased responsibilities.</li> <li>• Support from managers may allow workers to be more productive.</li> </ul> <p>Managers</p> <ul style="list-style-type: none"> <li>• Managers may be able to focus on the non-operational aspects of the business, allowing them to reduce indirect costs.</li> <li>• Managers may feel less important/motivated by being</li> </ul>

	Answer	Marks	Guidance
	<p><b>Level 3 (11–15)</b> Candidate shows <b>good</b> knowledge and understanding, analysis and evaluation of the significance to the stakeholders of Timpson Ltd of the company's organisational structure. <i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i></p> <p><b>Level 2 (6–10)</b> Candidate shows <b>reasonable</b> knowledge and understanding, analysis and evaluation of the significance to the stakeholders of the company's organisational structure. <i>The information has some relevance and is presented with limited structure. The information is supported by limited evidence.</i></p> <p><b>Level 1 (1–5)</b> Candidate shows <b>limited</b> knowledge and understanding of organisational structure with <b>limited or no</b> analysis and evaluation of the significance to the stakeholders of Timpson Ltd of the company's organisational structure. <i>The information is basic and communicated in an unstructured way. The information is supported by limited evidence and the relationship to the evidence may not be clear.</i></p> <p><b>NB</b> – award <b>maximum</b> of <b>two</b> marks for non-contextualised impacts.</p> <p><b>0 marks</b> - no response or no response worthy of credit.</p>		<p>seen as 'lower' down the organisational structure.</p> <ul style="list-style-type: none"> <li>Managers may not have much interaction with customers, leading to poor understanding of the business and customer behaviour.</li> <li>It may be more difficult to manage the workforce.</li> </ul> <p>Owners/shareholders</p> <ul style="list-style-type: none"> <li>Being a service sector business, the business may increase revenue and profits by being more customer focused, leading to increased dividends for the owners.</li> <li>There is no mention of owners on the organisation chart (which is not unusual) but they may feel that they have little input into the decision-making process.</li> </ul> <p>Suppliers</p> <ul style="list-style-type: none"> <li>Despite being a service sector business, Timpson will have some suppliers (shoe care products, un-cut keys, other consumables, machinery etc.). A customer focus may lead to increase sales.</li> </ul> <p>Customers</p> <ul style="list-style-type: none"> <li>Customers may benefit from better customer service which is likely to be one of their main objectives when using a business such as Timpson.</li> <li>Customers are more likely to return to Timpson and be loyal.</li> <li>Customers are more likely to trust the Timpson brand and may use Timpson for more services.</li> </ul> <p style="text-align: right;"><b>ARA</b></p>

## APPENDIX 1 – GRID FOR 2017 EXAMINATION

Question	AO1	AO2	AO3	AO4	Total	Quantitative skills
<b>Section A</b>						
1	4	-	-	-	4	
2	2	-	-	-	2	
3a	-	3 (3)	-	-	3	3
3b	-	3 (3)	-	-	3	3
4	4	-	-	-	4	
5	-	2 (2)	-	-	2	2
6	-	2 (2)	-	-	2	2
Sub-Total	10	10			20	10
<b>Section B</b>						
7	2	-	-	-	2	
8	-	2 (2)			2	2
9	2	2	4	4	12	
10	2	2	-	-	4	
11	2	2	8	8	20	
Sub-Total	8	8	12	12	40	2
<b>Total</b>	18	18	12	12	60	12

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