

Applied Business

Advanced GCE

Unit **F248**: Strategic Decision Making

Mark Scheme for January 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.

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Annotations

Annotation	Meaning
	The response given is 'Unclear' to the marker.
	'Benefit of doubt' but credit given.
	To indicate the response is in 'Context' of the relevant case study.
	Response is incorrect, no credit can be given.
	Use for Level of response answers to indicate Level 1.
	Use for Level of response answers to indicate Level 2.
	Use for Level of response answers to indicate Level 3.
	Use for Level of response answers to indicate Level 4.
	The response is not incorrect but has 'Not answered question'.
	Own figure rule. Use where indicated in the mark scheme.
	'Repeat' Response repeats the same marking point.
	'Noted but no credit given' or to indicate all or part blank answer pages have been seen by the marker.
	Correct point/answer. Credit can be given.

Subject-specific Marking Instructions**Testing of QWC**

In this external assessment the assessment of QWC will take place in Question 6 which is a levels of response question and carries 20 marks.

Marks are embedded within this question for assessing the quality of written communication. The following criteria are embedded within the levels of response for Question 6.

Level 4:

Ability to present relevant material in a well planned and logical sequence. Material clearly structured using appropriate business terminology confidently and accurately. Sentences, consistently relevant are well structured in a way that directly answers question. There will be few, if any errors of grammar, punctuation and spelling.

[4 marks representing the appropriate level of written communication are embedded in this level of response].

Level 3:

Ability to present relevant material in a planned and logical sequence. Appropriate business terminology used. Sentences for the most part relevant presented in a balanced, logical and coherent manner which addresses the question. There will be occasional errors of grammar, punctuation and spelling.

[3 marks representing the appropriate level of written communication are embedded in this level of response]

Level 2:

Limited ability to organise relevant material. Some appropriate business terminology used. Sentences are not always relevant with material presented in a way that does not always address the question. There may be noticeable errors of grammar, punctuation and spelling.

[2 marks representing the appropriate level of written communication are embedded in this level of response]

Level 1:

Ability to communicate at least one point using some appropriate business terminology. Sentences have limited coherence and structure, often being of doubtful relevance to the main focus of question. Errors of grammar, punctuation and spelling may be noticeable and intrusive.

[1 mark representing the appropriate level of written communication is embedded in this level of response]

Question		Answer	Marks	Guidance
1	(a)	<p>Indicative content:</p> <p>Aims:</p> <ul style="list-style-type: none"> • long-term • general • not SMART • not quantifiable • overall purpose <p>Objectives:</p> <ul style="list-style-type: none"> • short-term • specific target • SMART • measurable • steps to achieving aims. <p>Exemplar responses:</p> <p>Eg Objectives cover specific targets (1), whilst aims are more general (1).</p> <p>Eg Aims are the overall purpose of the business (1), whereas objectives are steps to help achieve the aims (1).</p> <p>Eg Objectives are short-term (1), whereas aims are long-term (1).</p>	4	<p>AO1 2 AO2 2</p> <p>One mark for each correct identification up to a maximum of two identifications, plus one further mark for each of two developments.</p> <p>Must be differences.</p> <p>Do not award factors which apply to both aims and objectives Eg Do not award 'motivation' or 'direction'.</p> <p>Mark holistically.</p> <p>Do not accept vague responses Eg what the business wants to achieve.</p> <p>Do not award examples.</p> <p>No context required.</p>
	(b)	<p>Indicative content:</p> <ul style="list-style-type: none"> • to set targets • to monitor progress • to clarify thinking • provide focus • to plan • to measure success • to provide direction • to unify/share goals • to keep control • to increase productivity • to help achieve aims/goals • to motivate staff. 	2	<p>AO1 2</p> <p>One mark for each correct identification up to a maximum of two identifications.</p> <p>Do not award vague responses Eg 'something to aim for' or 'what a business can do'.</p> <p>No context required.</p>

Question		Answer	Marks	Guidance
		<p>Exemplar responses:</p> <p>Eg To measure whether a business has achieved what it has planned (1).</p> <p>Eg To give internal stakeholders a target to work towards (1).</p>		

Question		Answer	Marks	Guidance
(c)		<p>Use levels of response criteria.</p> <p>Indicative content:</p> <ul style="list-style-type: none"> • in order to survive • no profit if no survival • need to pay creditors • high cost of finance • large upfront expenditure – land purchase/planning • approval/building costs – labour and materials • time to build • carrying higher than normal levels of stock • acid test ratio 0.7:1 • inability to meet payables due within 12 months • months to sell if orders not secured • 18% cancellations • reliance on economic conditions • volatile land prices • unexpected ground conditions • adverse weather • long-term - economic markets expected to recover. <p>Exemplar responses:</p> <p>Eg Without adequate cash-flow a business will not survive (L1) and, therefore, will be unable to make a profit (L1).</p> <p>Eg Without adequate cash-flow a company cannot pay its day to day expenses (L1). It is particularly important that <i>CD plc</i> targets cash-flow as its objective because it has high loan repayments (CONT) which it must meet (L2).</p> <p>Eg <i>CD plc</i> needs to sort out its cash-flow problems because it needs to have enough cash to cope with unexpected holdups in the planning or construction (CONT) process (L2).</p>	4	<p>AO1 2 AO2 2</p> <p>Level 2 (3–4 marks) Candidate applies knowledge and understanding of the importance of cash-flow to <i>CD plc</i> and its situation.</p> <p>Level 1 (1–2 marks) Candidate shows knowledge of the importance of cash-flow to any business with no use of context.</p> <p>Context should be annotated every time L2 is awarded with the icon 'CONT'.</p> <p>Non-contextual answer max Level 1.</p> <p>No matter how detailed a candidate's knowledge of the importance of cash-flow if it is not applied to <i>CD plc</i> it must be awarded L1 and a maximum of two marks.</p> <p>A candidate who has given a simple but accurate response applied to <i>CD plc</i>'s situation must be awarded L2 and a minimum of three marks.</p> <p>Question relates to the importance of cash-flow management. Do not award statements about what cash-flow is.</p> <p>Level annotation required.</p>

Question		Answer	Marks	Guidance
	(d)	<p>Indicative content:</p> <ul style="list-style-type: none"> reduce costs/overheads/fixed/variable increase revenue/price/marketing lower price to encourage more sales improve debt management/get customers to pay more quickly/factoring carrying lower stock levels – order smaller quantities more frequently obtain additional source of finance – loan/overdraft/sell assets/sell shares/obtain trade credit budgeting/financial planning. <p>Exemplar responses:</p> <p>Eg A business could reduce costs (1) by finding cheaper suppliers (1).</p> <p>Eg Increase the price of the homes (1) thus increasing revenue (1).</p> <p>Eg Obtain an overdraft (1) to act as a short-term buffer (1).</p>	6	<p>AO1 3 AO2 3</p> <p>One mark for each correct identification up to a maximum of three identifications, plus one further mark for each of three explanations.</p> <p>Accept examples.</p> <p>No context required.</p>
2	(a)	<p>Break-even = $\frac{FC}{Selling\ Price - VC}$ or $\frac{FC}{Contribution\ per\ unit}$</p> $\frac{\text{£46,000,000}}{\text{£130,000} - \text{£110,000}} = \frac{\text{£46,000,000}}{\text{£20,000}} = 2300 \text{ homes}$ <p>Award full marks for the correct answer: 2,300</p> <p>Eg 2300 (2)</p> <p>Eg $\frac{\text{£46m}}{\text{£20k}}$ (1)</p> <p>Eg Break-even = $\frac{FC}{Price - VC}$ (1)</p>	2	<p>AO1 1 AO2 1</p> <p>Up to two marks.</p> <p>No workings required. Award full marks for 2300. Max one mark if £ sign is present (£2300)</p> <p>Workings should only be marked if the final answer is incorrect. In which case award max one mark for the correct formula, if seen, whether in words or numbers.</p>

Question		Answer	Marks	Guidance
(b)		<p>Indicative content:</p> <ul style="list-style-type: none"> increased cost/reduced contribution raising break-even level. <p>Exemplar responses:</p> <p>Eg Its monthly loan repayments will be higher (1), increasing the number of homes <i>CD plc</i> needs to sell to break-even (1).</p> <p>Eg The break-even point will be higher (1) because costs have increased (1).</p> <p>Eg Its cost of capital will be higher (1) making the break-even point higher (1).</p>	2	<p>AO1 1 AO1 1</p> <p>One mark for a correct identification plus a further one mark for an explanation.</p> <p>One mark for increased cost (accept total, fixed or variable). One mark for higher break-even level.</p> <p>Do not award 'longer'.</p>
(c)		<p>Indicative content:</p> <ul style="list-style-type: none"> lower disposable income levels lower demand for housing may need to lower prices increased supply of qualified workers harder/easier to achieve. <p>Exemplar responses:</p> <p>Eg Fewer people will be willing to buy new homes (1) making it more difficult for <i>CD plc</i> to sell enough homes to break-even (1).</p> <p>Eg It may be able to recruit electricians on lower wages rates (1), making its break-even point lower and easier to achieve (1).</p> <p>Eg The company may need to lower its prices (1) making it harder to break-even (1).</p>	2	<p>AO1 1 AO2 1</p> <p>One mark for a correct identification plus a further one mark for an explanation.</p> <p>One mark for cause and one for ability to reach break-even. For full marks the response must link to the ability to reach break-even, not whether the break-even point is higher or lower.</p> <p>Eg 'If the unemployment rate rises fewer people will not be able to afford buying <i>CD plc</i> houses (1) so they might make less sales (0).' </p>

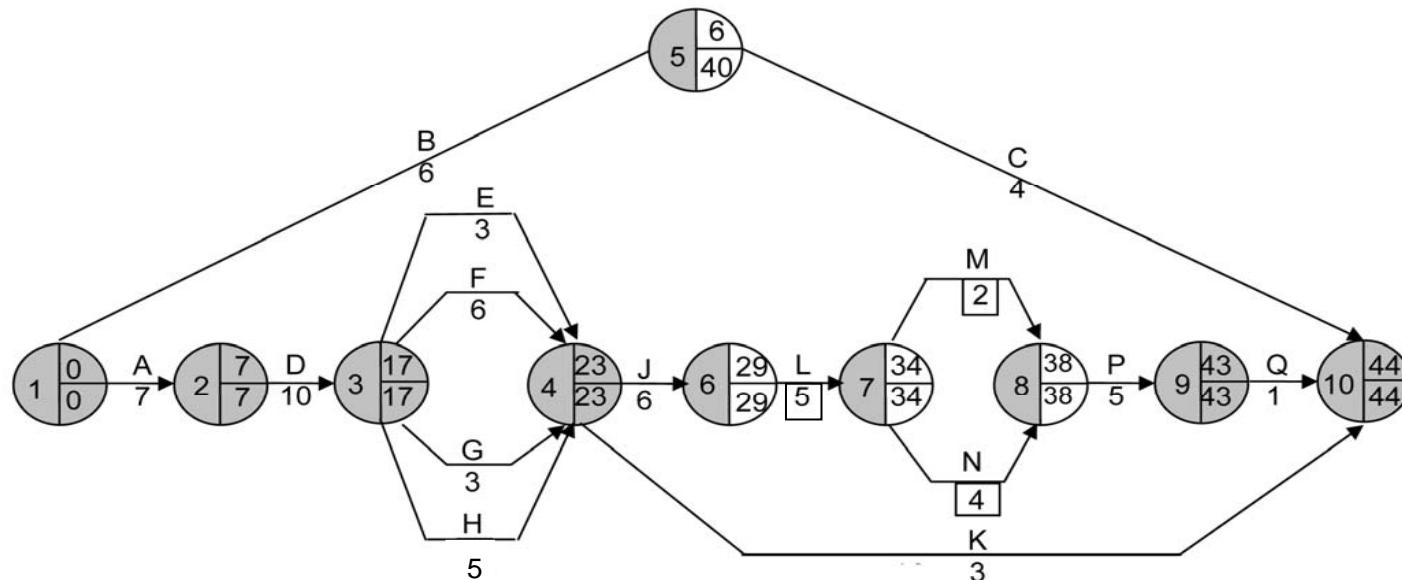
Question		Answer	Marks	Guidance
(d)		<p>Indicative content:</p> <ul style="list-style-type: none"> • assumes that everything produced is sold • assumes fixed costs remain constant • assumes the same price is charged to all • assumes that costs do not change • assumes that costs can be accurately calculated • assumes that costs can be split into fixed and variable • more easily applicable to a single product line • ignores changes in external factors/unexpected events • weather conditions • quantitative only • gives no indication of timescale. <p>Exemplar responses:</p> <p>Eg It assumes a business can classify its costs into fixed and variable (1). In practice some are semi-variable (1).</p> <p>Eg It assumes that the homes <i>CD plc</i> makes in 2013 will all be sold by the end of that year (1). It is unlikely that the company can find buyers for all of its homes that quickly (1).</p> <p>Eg It assumes that all homes are sold at the same price (1), when clearly some are more expensive than others (1).</p>	6	<p>AO1 6</p> <p>One mark for each correct identification, up to a maximum of three identifications, plus one further mark for each of three developments.</p> <p>To award marks the response must clearly identify a weakness of break-even analysis.</p> <p>Do not award generic answers which apply to all decision-making tools. Eg Do not award 'only as reliable as the data', 'only an estimate', 'may contain errors'.</p> <p>Do not award 'inaccurate' unless the impact is qualified.</p> <p>No context required</p>

Question		Answer	Marks	Guidance
3	(a)	<p>Indicative content:</p> <ul style="list-style-type: none"> • has an interest in/is affected by/affects the business • inside the business/work for/directly involved in • workers/managers/directors. <p>Exemplar responses:</p> <p>Eg Someone who works in the business (1) and is therefore affected by the decisions which the business makes (1).</p> <p>Eg An internal stakeholder is someone directly involved in the company (1) such as a manager (1).</p> <p>Eg An employee is an internal stakeholder (1) since they work inside the business (1).</p>	2	<p>AO1 2</p> <p>Up to two marks.</p> <p>One mark for 'stakeholder' and one mark for 'internal'.</p> <p>Max one mark for examples.</p> <p>NB all examples need to be internal to the award the mark.</p> <p>Do not award 'shareholders'.</p> <p>No context required.</p>
	(b)	<p>Turnover Rate = $\frac{\text{Leavers}}{\text{Number of staff}} \times 100$</p> <p>$15\% = \frac{\text{Leavers}}{180} \times 100$</p> <p>$\frac{15}{100} \times 180 = 27 \text{ workers}$</p> <p>Award full marks for the correct answer: 27</p> <p>Eg 27 (2)</p> <p>Eg $15\% \times 180$ (1)</p> <p>Eg 0.15×180 (1)</p> <p>Eg $\frac{\text{Leavers}}{\text{Staff employed}} \times 100$ (1)</p>	2	<p>AO1 1 AO2 1</p> <p>Up to two marks.</p> <p>No workings required. Award full marks for 27.</p> <p>Workings should only be marked if the final answer is incorrect. In which case award max one mark for the correct formula or correct calculation, if seen.</p>

Question		Answer	Marks	Guidance
(c)		<p>Indicative content:</p> <ul style="list-style-type: none"> • being short of staff • lower productivity • reduced output • building project falling behind target • missing completion deadlines • recruitment costs • increased training costs • lower profits • decrease in sales • poor image • negatively affect reputation • higher workload on remaining staff • lower morale • amalgamation difficulties. <p>Exemplar responses:</p> <p>Eg The company may be short of a particular type of worker Eg bricklayers (1), this may cause delays in the building programme (1).</p> <p>Eg The building programme is likely to fall behind schedule (1), damaging <i>CD plc</i>'s reputation with customers (1).</p> <p>Eg The money spent on recruiting new staff (1) will increase costs and lower profits (1).</p>	2	<p>AO1 1 AO2 1</p> <p>One mark for a correct identification plus one further mark for an explanation.</p> <p>Accept generic context.</p>

Question		Answer	Marks	Guidance
(d)		<p>Indicative content:</p> <ul style="list-style-type: none"> • improve human resource management • organise workers' shifts better • train the onsite supervisory team • pay workers more • improve working conditions • longer holidays • listen to staff views/grievances • offer financial incentives Eg reduced price houses • loyalty scheme • change management style • increased job security • increase morale/motivation/job satisfaction • greater training opportunities • deal with the cause of any problems • empower employees/increase responsibility levels • better communication. <p>Exemplar responses:</p> <p>Eg The company could increase pay rates to staff (1). This would encourage them to stay with the company (1).</p> <p>Eg The company should find out the specific problems causing high labour turnover (1). Resolving such problems increase staff morale (1).</p>	4	<p>AO1 2 AO2 2</p> <p>One mark for each correct identification, up to a maximum of two identifications, plus one further mark for each of two explanations.</p> <p>Do not award 'therefore less likely to leave', unless qualified.</p> <p>Accept generic context.</p>

Question		Answer	Marks	Guidance
4	(a)	<p>L = 5, M = 2, N = 4</p> <p>Node 5 6/40, Node 6 29/29, Node 7 34/34, Node 8 38/38.</p>	11	<p>AO1 5 AO2 6</p> <p>One mark for each correct answer up to 11 marks.</p> <p>No OFR.</p>



Question		Answer	Marks	Guidance
	(b)	<p>Sequence of activities on the critical path: ADFJLNPQ</p> <p>Eg ADFJLNPQ (1)</p> <p>Eg Groundworks, bricklaying, initial electrical, plastering, fittings installation, plumbing completion, internal decoration and final inspection (1).</p>	1	<p>AO2 1</p> <p>For one mark.</p> <p>Must be in correct order.</p> <p>No OFR.</p>
	(c)	<p><i>Use levels of response criteria.</i></p> <p>Indicative content</p> <ul style="list-style-type: none"> • can calculate slack time • better usage of slack time • need to co-ordinate contractors • alert onsite supervisory team to the need to re-allocate resources • increased external communication/dealing with third parties • contractors paid when on site – whether fully utilised or not • reliance on contractors for sales • reliance on contractors for reputation • sets targets for contractors • currently many designs of homes making scheduling complex • fewer designs of homes (Option 2) making scheduling simpler • more complicated operation with contractors • works even with complicated production processes, especially if computer programmed • allows alternative scenarios to be modelled • can order tasks effectively • avoid bottlenecks • works out the minimum time for project completion • more accurate monitoring of progress • identify the critical path to give it extra attention • can put additional resources on the critical path • maximise capacity utilisation • minimise costs and wastage 	8	<p>AO1 2 AO2 2 AO3 2AO4 2</p> <p>Level 4 (7–8 marks) Candidate evaluates the usefulness of critical path analysis to <i>CD plc</i>.</p> <p>Level 3 (5–6 marks) Candidate analyses the usefulness of critical path analysis to <i>CD plc</i>.</p> <p>Level 2 (3–4 marks) Candidate applies knowledge and understanding of the usefulness of critical path analysis to <i>CD plc</i>.</p> <p>Level 1 (1–2 marks) Candidate demonstrates knowledge of critical path analysis with no use of context.</p> <p>Please indicate each time a candidate achieves a particular level as this will help you to allocate the marks within that level.</p> <p>Context should be annotated every time L2/L4 is awarded with the icon 'CONT'.</p> <p>Non-contextual answer max level 1.</p> <p>Do not accept 'downsize', 'Option 2' as context.</p>

Question		Answer	Marks	Guidance															
		<ul style="list-style-type: none"> • schedule tasks/resources • minimise production time – 2000+ homes to be completed • save money • maximise profit • delays will affect marketing/sales • better scheduling better morale • excellent customer service record needs to be maintained • uncertainty – weather/ground conditions/economic climate • co-ordinate all operations within the company, not just production • use for entire property development operation from land purchase through planning approval to marketing and sales. <p>Exemplar responses: Eg Critical path analysis puts activities into their most efficient sequence (L1). It will, therefore, show <i>CD plc</i> the fastest way to build a starter home (CONT) (L2). This will allow the company to gain income from the sale earlier than it otherwise would (L3). Given that <i>CD plc</i> would be relying on Option 2 to solve its current cash-flow difficulties (CONT) critical path analysis will be an essential tool to avoid business failure (L4).</p>		Accept 'repeat jobs', 'on site supervisors' as context. Level annotation required.															
5	(a)	<p>Full marks for correct NPV irrespective of whether other boxes are completed: Option 1 £1,030,000 Option 2 £45,000</p> <p>Otherwise, for each option, 1 mark for correct cash-flow in years 1 – 3.</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Option 1</th> <th>Option 2</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>870,000</td> <td>261,000</td> </tr> <tr> <td>2</td> <td>1,520,000</td> <td>456,000</td> </tr> <tr> <td>3</td> <td>2,640,000</td> <td>528,000</td> </tr> <tr> <td>NPV</td> <td>1,030,000</td> <td>45,000</td> </tr> </tbody> </table>	Year	Option 1	Option 2	1	870,000	261,000	2	1,520,000	456,000	3	2,640,000	528,000	NPV	1,030,000	45,000	4	AO1 2 AO2 2 Up to two marks for each option, maximum 4 marks. Full marks for correct NPV figures for each option even if cash-flow boxes are empty/incorrect.
Year	Option 1	Option 2																	
1	870,000	261,000																	
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Question		Answer	Marks	Guidance
(b)		<p>Indicative content:</p> <ul style="list-style-type: none"> NPV takes into account the timing of cash inflows NPV takes into account the effect inflation has on the future value of money NPV allows analysis of the effect of different discount rates NPV allows investments with significantly different amounts of start-up capital to be compared PB only looks at speed of payback PB ignores returns on investment after payback PB discriminates against projects which have longer payback periods PB requires projects to have similar levels of start up capital to make true comparisons PB ignores investment yield PB assumes the shorter the payback period the better the investment. <p>Exemplar responses:</p> <p>Eg Payback figures might lead the company to overlook the most lucrative investment (1) because it ignores returns once the initial investment is recouped (1).</p> <p>Eg NPV gives a predicted monetary return in today's money terms (1), rather than just how long it will take to recoup the investment (1).</p> <p>Eg NPV takes into account the timing of cash inflows (1). This would be important to the company as the cash-flow problems in the property development industry are huge (1).</p>	2	<p>AO1 1 AO2 1</p> <p>One mark for a correct identification plus one further mark for an explanation.</p> <p>Do not award repetitions in the negative Eg do not award 'but PB does not', or 'unlike NPV'.</p> <p>Candidate can achieve full marks without referring to both methods by name – either one is sufficient.</p> <p>Accept generic context.</p>

Question		Answer	Marks	Guidance
(c)		<p>Indicative content:</p> <ul style="list-style-type: none"> NPV only gives size of expected return NPV does not compare expected returns with cost of investment difficult to determine what discount rate to use for NPV different discount factors can give widely differing results ARR gives percentage return shareholders are interested in percentage return ARR does not rely on accuracy of selected discount rate. <p>Exemplar responses:</p> <p>Eg NPV only gives an overall monetary return figure (1), whereas ARR gives a percentage, comparing the overall return with the initial cost of the project (1).</p> <p>Eg The accuracy of NPV depends on choosing the correct discount rate (1). ARR removes this area of uncertainty (1).</p> <p>Eg ARR compares returns with initial investment (1). This is likely to be of more interest to <i>CD plc</i>'s shareholders as it affects share prices/dividends (1).</p>	2	<p>AO1 1 AO2 1</p> <p>One mark for a correct identification plus one further mark for an explanation.</p> <p>Do not award repetitions in the negative Eg do not award 'but ARR does not', or 'unlike NPV'.</p> <p>Candidate can achieve full marks without referring to both methods by name – either one is sufficient.</p> <p>Accept generic context.</p>

Question		Answer	Marks	Guidance
6*		<p>Use levels of response criteria.</p> <p>Indicative content:</p> <ul style="list-style-type: none"> • likelihood of success? • solution to current problems? • cost • profitability • effects on cash-flow • returns on investment • NPV/ARR/Payback • degree of risk – Ansoff's Matrix • objectives of company • impact on business creativity • impact on Creacon brand image • effects on excellent customer service reputation • stakeholder conflict • staffing issues • trade union membership • current unrest in building division/low morale • current performance in building division • increased costs in building division • current lack of work for construction workers • financing the options/borrowing requirement • loss of control – Option 1 • new market – Option 1 • pooled resources – Option 1 • lack of expertise in industrial units – Option 1 • large undertaking – Option 1 • economies/diseconomies of scale – Option 1 • motivation of building division – Option 1 • conflict with business motto? – Option 1 • Industicon plc's reputation – Option 1 • Industicon plc's resources and expertise – Option 1 	20	<p>AO1 2 AO2 4 AO3 6 AO4 8</p> <p>QWC is assessed in this question.</p> <p>Level 4b (17–20 marks) Candidate evaluates which option <i>CD plc</i> should choose, using reasoned justification based on internal and external factors.</p> <p>Level 4a (13–16 marks) Candidate evaluates which option <i>CD plc</i> should choose using reasoned justification based on internal or external factors.</p> <p>Level 3b (10–12 marks) Candidate analyses both options available to <i>CD plc</i>.</p> <p>Level 3a (7–9 marks) Candidate analyses one option available to <i>CD plc</i>.</p> <p>Level 2 (3–6 marks) Candidate applies knowledge and understanding to one or both of the options under consideration at <i>CD plc</i>.</p> <p>Level 1 (1–2 marks) Candidate identifies factor(s) involving strategic decision making with no context.</p> <p>Please indicate each time a candidate achieves a particular level as this will help you to allocate the marks within that level.</p> <p>Context should be annotated every time L2/L4 is awarded with the icon 'CONT'</p>

Question	Answer	Marks	Guidance																		
	<ul style="list-style-type: none"> • location of head offices/industrial estate – Option 1 • staff redundancies – Option 2 – cost/reputation • effect on remaining staff – Option 2 • reliance on contractors – Option 2 • contracting out more flexible? – Option 2 • cost control – Option 2 • management of contractors – Option 2 • first time buyers being priced out of market – Option 2 • loss of reputation for creative designs – Option 2 • properties maintain well built reputation? – Option 2 • no more than two bedrooms – Option 2 • demand for starter homes/industrial units • effect on gearing • competition • wider business environment • economic stability • economic conditions – exchange, interest, inflation rates, unemployment • government policy – taxation, investment incentives • availability of credit – domestic/commercial • social trends in demographics/housing • changes in legislation planning procedures/regulations • market confidence • practical and operational matters. <table style="margin-top: 20px; border-collapse: collapse;"> <tr> <td style="width: 15%;"></td> <td style="width: 25%; text-align: center;">Option 1</td> <td style="width: 25%; text-align: center;">Option 2</td> </tr> <tr> <td>Cost:</td> <td>Amalgamate</td> <td>Downsize</td> </tr> <tr> <td>Payback:</td> <td>£4,000,000</td> <td>£1,200,000</td> </tr> <tr> <td>NPV :</td> <td>27 months</td> <td>28.5 months</td> </tr> <tr> <td>ARR:</td> <td>£1,030,000</td> <td>£45,000</td> </tr> <tr> <td></td> <td>25%</td> <td>13.89%</td> </tr> </table>		Option 1	Option 2	Cost:	Amalgamate	Downsize	Payback:	£4,000,000	£1,200,000	NPV :	27 months	28.5 months	ARR:	£1,030,000	£45,000		25%	13.89%		<p>Non-contextual answer max level 1.</p> <p>Do not award 'risk' unless qualified.</p> <p>Do not award 'wages' with external contractors.</p> <p>External factors:</p> <ul style="list-style-type: none"> • reputation • interest rates • redundancy payments • cost of land, project (£4, £1.2m) • planning permission • market trends. <p>Internal factors:</p> <ul style="list-style-type: none"> • share of profits • product range • NPV/ARR/Payback • cost savings/reduction • cash-flow management. <p>L4a [13–16 marks] [13–14 marks] Candidate gives a weak justification for their choice of option using internal or external factors.</p> <p>[15–16 marks] Candidate gives a full justification for their choice of option using internal or external factors.</p> <p>L4b [17–20 marks] [17–18 marks] Candidate gives a weak justification for their choice of option using internal and external factors.</p>
	Option 1	Option 2																			
Cost:	Amalgamate	Downsize																			
Payback:	£4,000,000	£1,200,000																			
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	25%	13.89%																			

Question		Answer	Marks	Guidance
		<p>Exemplar response:</p> <p>Eg The cost of making staff redundant is high (L1). If <i>CD plc</i> makes most of its building division (CONT) redundant it will lose a lot of skills and knowledge (L2) of how to build its Creacon design of homes. This is likely to reduce build quality when the homes are then built by contractors with no previous knowledge of the brand (L3). Since Creacon homes are known for their quality it is important that nothing is done which might make the company's property less appealing to customers. <i>CD plc</i> should take Option 1 preserving the skills of the construction workers (CONT) and the build quality of the brand as this is most likely to secure long-term profit (L4).</p>		<p>[19–20 marks] Candidate gives a full justification for their choice of option using internal or external factors.</p> <p>Level annotation required.</p>

Question		Answer	Marks	Guidance
7		<p><i>Use levels of response criteria.</i></p> <p>Indicative content: Contingency planning:</p> <ul style="list-style-type: none"> • react faster in a crisis • minimise losses • likelihood of adverse situations occurring • take more appropriate action if prepared • avoid legal action • maintain production • complete on time/fulfil orders – cash-flow/reputation • time • cost • training • needs to be monitored • needs be kept up-to-date. <p>Option choice</p> <ul style="list-style-type: none"> • increase profits • increase revenue • minimise current problems • increase shareholder confidence • need to be operating in correct market. <p><i>CD plc's:</i></p> <ul style="list-style-type: none"> • volatile market • falling profits • 18% cancellations • changes in property ownership culture • affected by changes in planning legislation • affected by weather conditions • at mercy of economic conditions. 	14	<p>AO1 2 AO2 3 AO3 4 AO4 5</p> <p>Level 4 (10–14 marks) Candidate evaluates the importance of contingency planning/choosing the correct option to <i>CD plc</i>.</p> <p>Level 3 (6–9 marks) Candidate analyses the importance of contingency planning/choosing the correct option to <i>CD plc</i>.</p> <p>Level 2 (3–5 marks) Candidate applies knowledge and understanding of the importance of contingency planning/choosing the correct option to <i>CD plc</i>.</p> <p>Level 1 (1–2 marks) Candidate identifies the importance of contingency planning/choosing the correct option to a business with no context.</p> <p>Please indicate each time a candidate achieves a particular level as this will help you to allocate the marks within that level.</p> <p>Context should be annotated every time L2/L4 is awarded with the icon 'CONT'.</p> <p>Non-contextual answer max level 1.</p> <p>Do not award 'survival'.</p> <p>Level annotation required.</p>

Question		Answer	Marks	Guidance
		<p>Evaluation:</p> <ul style="list-style-type: none"> contingency planning of little benefit if core business is badly focused contingency planning alone will not guarantee success both options have significant risks making contingency planning essential. <p>Exemplar response:</p> <p>Eg Contingency planning helps to ensure that a business can react quickly in a situation which threatens its existence (L1). Contingency planning would help <i>CD plc</i> react quickly to changes in economic conditions such as banks' mortgage lending policy (CONT) (L2). This would allow the marketing department to quickly draw up new buying incentives appropriate to the situation, gaining competitive advantage over slower competitors (L3). The Finance Manager is right, regardless of which option the company takes, being in the construction (CONT) industry <i>CD plc</i> will always be affected by changes in economic conditions and dealing with such changes is more critical to the survival of the company than whether it is operating in the industrial or domestic market, with or without its own building division (L4).</p>		

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