

**GCE**  
**Business**

**Unit H431/03: The global business environment**

Advanced GCE

**Mark Scheme for June 2018**

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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

BP	Blank page
✓	Tick
✗	Cross
NAQ	Not answered question
OFR	Own Figure Rule
BOD	Benefit of Doubt
REP	Repeat
SEEN	Noted but no credit given
TV	Too vague
?	Unclear
K	Knowledge
APP	Application of knowledge and understanding
AN	Analysis
EVAL	Evaluation
EE	Effective evaluation

**Subject-specific Marking Instructions****Levels of response – Level descriptors**

	<b>Knowledge and understanding/ Application</b>	<b>Analysis</b>	<b>Evaluation</b>
<b>Strong</b>		An explanation of causes and consequences, fully developing the links in the chain of argument.	A conclusion is drawn weighing up both sides, and reaches a supported judgement.
<b>Good</b>	Precision in the use of the terms in the question and applied in a focused way to the context of the question.	An explanation of causes and consequences, developing most of the links in the chain of argument.	A conclusion is drawn weighing up both sides, but without reaching a supported judgement.
<b>Reasonable</b>	Awareness of the meaning of the terms in the question and applied to the context of the question.	An explanation of causes and consequences, which omit some key links in the chain of argument.	Some attempt to come to a conclusion, which shows some recognition of the influencing factors.
<b>Limited</b>	Awareness of the meaning of the terms in the question.	Simple statement(s) of cause and consequence.	An unsupported assertion.

Answer		Marks	Guidance
1	<p><b>Explain two likely barriers to entry into the furniture market.</b></p> <p>One mark for each correct identification of a barrier to entry up to a maximum of two identifications.</p> <p>One further mark for each explanation up to a maximum of two explanations.</p>	<p><b>4</b> (AO1 2) (AO2 2)</p>	<p>Indicative content:</p> <ul style="list-style-type: none"> <li>• capital/start up cost</li> <li>• control of resources</li> <li>• EOS</li> <li>• customer loyalty &amp; branding</li> <li>• advertising</li> <li>• research &amp; development</li> <li>• intellectual property</li> <li>• sunk costs – unrecoverable</li> <li>• predatory pricing</li> </ul> <p>Exemplar response:</p> <p>Purchasing economies of scale are likely to be a barrier to entry. <b>(1)</b> This is because firms such as IKEA can buy timber in vast quantities that will get discounts that other furniture manufacturers cannot compete with. <b>(1)</b></p>

ARA

Answer		Marks	Guidance
2	<p><b>Analyse the possible effect of IKEA's CSR profile on any two of its stakeholders.</b></p> <p><b>Level 2 (4–6)</b> Candidate shows <b>reasonable</b> knowledge and understanding and <b>good</b> analysis of how the IKEA's CSR profile might affect stakeholders.</p> <p><b>Level 1 (1–3)</b> Candidate shows <b>limited</b> knowledge and understanding with <b>limited or no</b> analysis of how IKEA's CSR profile might affect stakeholders.</p> <p><b>NB</b> – award <b>maximum of two</b> marks for non-contextualised answer.</p> <p><b>0 marks</b> no response or no response worthy of credit.</p> <p><b>Award bottom of the AO level if only ONE stakeholder is referred to</b></p>	<p><b>6</b> (AO1 2) (AO2 2) (AO3 2)</p>	<p>Indicative content:</p> <ul style="list-style-type: none"> <li>employees – effect could be on their morale, enjoy working for IKEA with good CSR (or not!). Also, some employees are employed to actually maintain and publicise that CSR!</li> <li>customers – may be more likely to buy from such a firm so makes them feel good</li> <li>managers – similar to employees</li> <li>owners – good CSR is/can be highly profitable if it generates extra revenue at no big addition to cost. Profit, dividend, company value etc.</li> <li>suppliers – might want to be associated with IKEA. Also, some will see this as an opportunity to improve their own CSR and act responsibly. Enables firms with good CSR to engage with IKEA.</li> </ul> <p>Exemplar response:</p> <p>Suppliers might well benefit from IKEA's positive CSR image, particularly if they directly benefit via, say, their own sourcing of sustainable wood. (1) Indeed, timber suppliers of this particular niche have a huge opportunity to get involved with IKEA. Those that are not sustainably sourced currently now need to or they will not have IKEA's business. (1) The gain for the RIGHT kind of supplier is therefore huge in terms of extensive contracts and the subsequent revenue and profit that should follow. (1)</p>

ARA

Answer		Marks	Guidance
3	<p><b>Evaluate one reason why having a range of promotional activities is important to Ikea.</b></p> <p><b>Level 3 (7–10)</b> Candidate shows <b>strong</b> knowledge and understanding, analysis and evaluation of the importance of promotional activities to IKEA.</p> <p><b>Level 2 (4–6)</b> Candidate shows <b>reasonable</b> knowledge and understanding, analysis and evaluation of the importance of promotional activities to IKEA.</p> <p><b>Level 1 (1–3)</b> Candidate shows <b>limited</b> knowledge and understanding of promotion with <b>limited or no</b> analysis and evaluation of the importance of promotional activities to IKEA.</p> <p><b>NB</b> – award <b>maximum of two</b> marks for non-contextualised impacts.</p> <p><b>0 marks</b> no response or no response worthy of credit.</p>	<b>10</b> (AO1 2) (AO2 2) (AO3 3) (AO4 3)	<p>Indicative content:</p> <ul style="list-style-type: none"> <li>• creating awareness generally (e.g. via extensive catalogues)</li> <li>• it's what competitors do, so need to at least match them</li> <li>• introduce new products</li> <li>• introduce promotional offers</li> <li>• keeps IKEA as a corporate identity in the public's eye.</li> <li>• ensuring CSR profile is known</li> <li>• entering new markets, e.g. India</li> </ul> <p>IKEA need to maintain a range of promotional activities so that they maintain their market position. Given the size and reach of the business (e.g. ventures into China and India) it is essential that the right and varied methods of promotion are used to keep IKEA in the public's mind. This is particularly essential if IKEA is to be the environmentally friendly, 'charitable' entity that it wishes to be seen to be. This image is integral to the company's profile and needs constant maintenance and promotion (e.g. through PR) so that it continues to be seen how it wants to be seen. An organisation with less need for a public and positive CSR image, probably most small independent furniture manufacturers, would not need such time and resources devoted to promotional activities.</p> <p style="text-align: right;">ARA</p>

Answer		Marks	Guidance
4	<p><b>IKEA raised its basic level of wage (Extract E) in all of its stores in the USA.</b></p> <p><b>Explain two possible reasons why it might have done this.</b></p> <p>One mark for each correct identification of a reason up to a maximum of two reasons.</p> <p>One further mark for each explanation up to a maximum of two explanations.</p>	<p><b>4</b> (AO1 2) (AO2 2)</p>	<p>Indicative content:</p> <ul style="list-style-type: none"> <li>• To pay more than competitors, therefore attract staff</li> <li>• To motivate staff</li> <li>• To ensure that IKEA's 'minimum wage' at least matches the legal one</li> <li>• To simply reward staff for performance</li> <li>• It felt morally obliged</li> <li>• It sought to improve its CSR image</li> </ul> <p>Exemplar response:</p> <p>IKEA raised its wage level so that it looked positive in the eyes of the public. (1) IKEA is very aware of its CSR image and is always trying to enhance it – this method is ideal. (1)</p>

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Answer		Marks	Guidance
5*	<p><b>Evaluate the importance of effective stock control to the success of IKEA.</b></p> <p><b>Level 4 (16–20)</b> Candidate shows <b>strong</b> knowledge, understanding, analysis and evaluation of the importance of effective stock control to IKEA.</p> <p><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 (11–15)</b> Candidate shows <b>good</b> knowledge and understanding, analysis and evaluation of the importance of effective stock control to IKEA.</p> <p><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 importance of effective stock control to IKEA.</p> <p><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 stock control with <b>limited or no</b> analysis and evaluation of the importance of effective stock control to IKEA.</p>	<b>20</b> (AO1 2) (AO2 4) (AO3 6) (AO4 8)	<p>Indicative content:</p> <ul style="list-style-type: none"> <li>• IKEA has a huge and complex supply chain</li> <li>• The logistics of sourcing and delivering huge amounts of timber products require precise management</li> <li>• The costs of holding stock/warehousing – opportunity costs, actual fixed costs (e.g. insurance), handling etc. – are vast</li> <li>• It sells bulky, space taking products</li> <li>• The costs of holding too little (i.e. upset customers) are too great to risk – therefore large amounts of stock are held</li> <li>• IKEA sells products that are sourced from timber ‘farms’, with all of the environmental, CSR implications that might impact on stock control management</li> <li>• Economies of scale – effective stock control should maximise EOS, particularly purchasing</li> <li>• Given the multinational nature of its business, IKEA must ensure both supply of and demand for its goods are predicted and planned for – i.e. the globalisation ‘angle’</li> </ul> <p>Given the nature of IKEA’s products, it is essential that stock control is managed effectively. On a very basic level, IKEA sells a lot of very bulky, space-consuming products that will incur huge opportunity and actual costs – such as insurance, lighting, heating and handling. Particularly handling costs – most of IKEA’s staff in its stores would spend a lot of time re-stocking shelves and moving items around for customers – are all very expensive. It is therefore incumbent on IKEA to predict demand with a fair degree of accuracy, as to hold too much stock is expensive. On the other hand, IKEA’s middle class consumers expect to pick up their items when they go shopping and so IKEA must keep more than enough stock. Thus, striking the balance, due to the bulky nature alone, between too much stock and too little is critical to IKEA.</p>

	<b>Answer</b>	<b>Marks</b>	<b>Guidance</b>
	<p><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 of two</b> marks for non-contextualised impacts.</p> <p><b>0 marks</b> no response or no response worthy of credit.</p>		

Answer			Marks	Guidance
6	a(i)	<b>Calculate the earliest start time for activity H.</b>  1 mark for the correct answer	1 (AO2 1)	Earliest start time for activity H  56 (1)
6	a(ii)	<b>Calculate the overall time for manufacturing and delivery to the customer.</b>  1 mark for the correct answer  ORF based on candidate's answer to part (i)	1 (AO2 1)	Overall time for delivery to the customer.  124 (1)
6	a(iii)	<b>Calculate the latest finish time for activity D.</b>  1 mark for the correct answer  ORF based on candidate's answer to part (i) and (ii)	1 (AO2 1)	Latest finish time for activity D.  53 (1)
6	b	<b>Using the network diagram, identify the critical path for the order.</b>  1 mark for the correct answer  ORF based on candidate's completed network diagram	1 (AO3 1)	Critical path is A B C F G J L M (1)  Accept answer if critical path is clearly and correctly shown on Fig.1

Answer			Marks	Guidance
6	c	<p><b>Explain the difference between total float and free float.</b></p> <p>Two marks for an explanation of a difference between total float and free float.</p> <p>One mark for knowledge of float</p>	2 (AO1 2)	<p>Indicative content:</p> <ul style="list-style-type: none"> <li>• Total float is 'spare time'</li> <li>• Free float is 'spare time without delaying the next (non-critical) activity'</li> </ul> <p>Exemplar response:</p> <p>Total float measures the amount of spare time an activity has. (1)</p> <p>Free float measures the amount of time an activity has without delaying the next activity and the whole task (1)</p> <p>Total float looks at spare time which does not delay the whole task <b>whereas</b> free float looks at spare time which does not delay the next activity. (2)</p> <p style="text-align: right;">ARA</p>
6	d	<p><b>Calculate the cross elasticity of demand for garden chairs in response to the change in the price of a garden table.</b></p> <p>4 marks for a correct answer – whether or not working is shown</p> <p>3 marks for correct answer but with any form of units</p> <p>3 marks for answer of wrong magnitude if correct working is shown</p>	4 (AO1 2) (AO2 1) (AO3 1)	<p>Cross elasticity of demand = <math>\frac{\% \text{ change in demand for garden chairs}}{\% \text{ change in price for garden tables}}</math></p> <p><math>\% \text{ change in demand} = \frac{98 - 86}{86} \times 100 = 13.95\%</math> (1)</p> <p><math>\% \text{ change in price} = \frac{\text{€}150 - \text{€}112}{\text{€}150} \times 100 = - 25.33\%</math> (1)</p> <p><math>= \frac{13.95\%}{- 25.33\%}</math> (1)</p> <p><math>= - 0.55</math> (allow -0.6) (1)</p> <p>NB The minus sign is important in XED, so if a candidate has a correct answer without an appropriate minus sign award then award 3 marks</p> <p style="text-align: right;">OFR</p>

Answer		Marks	Guidance
7	<p><b>Analyse one way in which Ansoff's matrix might have been useful to IKEA when planning the expansion into India.</b></p> <p><b>Level 2 (4–6)</b> Candidate shows <b>reasonable</b> knowledge and understanding and <b>good</b> analysis of how useful Ansoff's matrix might have been to IKEA when planning the expansion into India.</p> <p><b>Level 1 (1–3)</b> Candidate shows <b>limited</b> knowledge and understanding of Ansoff's matrix with <b>limited or no</b> analysis of how useful Ansoff's matrix might have been to IKEA when planning the expansion into India.</p> <p><b>NB</b> – award <b>one</b> mark for non-contextualised answer.</p> <p><b>0 marks</b> no response or no response worthy of credit.</p>	6 (AO1 1) (AO2 1) (AO3 4)	<p>Indicative content:</p> <ul style="list-style-type: none"> <li>• Ansoff's matrix helps assess risk</li> <li>• The expansion into India would probably have been in the 'new market/existing product' quadrant, i.e. market extension</li> <li>• Alternatively, it might be 'diversification' as IKEA might have adapted its products so that they were 'new/new'</li> <li>• This would enable IKEA to plan its marketing accordingly</li> <li>• And would enable IKEA to calculate risk and work out potential failure/success chance and expected profits</li> </ul> <p>At a very basic level, Ansoff's matrix would enable IKEA to evaluate risk. The Indian venture would probably involve selling the same products it sells in Europe and USA but to a new market. This makes the level of risk 'moderate', according to Ansoff's – although this is, at best, for guidance only. It is certainly useful but the very action of selling in the sub-continent to a totally different market would still need quantifying and careful consideration for which Ansoff's is somewhat limited. Certainly, it is useful when comparing to other possible ventures.</p> <p style="text-align: right;"><b>ARA</b></p>
8*	<p><b>Discuss the extent to which changes in economic factors are likely to affect IKEA in the future.</b></p> <p><b>Level 4 (16–20)</b> Candidate shows <b>strong</b> knowledge, understanding, analysis and evaluation of the extent to which changes in economic factors are likely to impact IKEA.</p> <p><i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i></p>	20 (AO1 2) (AO2 4) (AO3 6) (AO4 8)	<p>Indicative content</p> <p>Economic factors could include:</p> <ul style="list-style-type: none"> <li>• Changes in interest rates</li> <li>• Changes in exchange rates</li> <li>• Economic growth, standard of living and unemployment</li> <li>• Taxation</li> <li>• Government spending and subsidies</li> <li>• All of the above on a global level</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 extent to which changes in economic factors are likely to impact IKEA.</p> <p><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 extent to which changes in economic factors are likely to impact IKEA.</p> <p><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 economic factors with <b>limited or no</b> analysis and evaluation of the extent to which changes in economic factors are likely to impact IKEA.</p> <p><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>IKEA sells home furnishings which are very much linked to patterns of demand in house buying or house refurbishment/redecoration. In short, people moving house or seeking to spend money on home improvements, are likely to provide IKEA with business. Therefore, the demand for IKEA's products is likely to be very much linked to economic cycles. When employment is high, wages are rising and there is generally growth in the economy then it follows that people will be spending money on 'big ticket items' such as furniture. In which case, the fortunes of IKEA are inextricably linked to the business cycle. However, whilst there is undoubtedly some truth in this, IKEA is now a multinational organisation and its demand is linked to all countries' business cycles. The extract talks of growth in India which will be a huge gain for IKEA, regardless of the economic cycle unfolding in, say, UK. That said, in a globalised world, different countries' economic cycles are tending towards synchronicity and, perhaps in time, a slump will affect all of IKEA's outlets around the world simultaneously. It is also true that perhaps IKEA's products are linked in a different way to the economic cycle in that they are not particularly expensive and are actually the substitute products one precisely goes for during an economic contraction.</p> <p style="text-align: right;">ARA</p>

Answer		Marks	Guidance
	<p><b>NB</b> – award <b>maximum of two</b> marks for non-contextualised impacts.</p> <p><b>0 marks</b> no response or no response worthy of credit.</p>		

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