

GCE
Business Studies

Unit **F297**: Strategic Management

Advanced GCE

Mark Scheme for June 2015

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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.

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Annotations

Annotation	Meaning
?	Unclear
BOD	Benefit of doubt
X	Cross
L1	Level 1
L2	Level 2
L3	Level 3
L4	Level 4
NAQ	Not answered question
NUT	No use of text
OFR	Own figure rule
REP	Repetition
SEEN	Noted but no credit given
TV	Too vague
✓	Tick

Subject-specific Marking Instructions**General**

- The paper is to be marked to A2 standard.
- Marking should be positive; marks should not be subtracted for errors or inaccuracies.
- Candidates should be regarded as achieving the highest level of response which accurately describes their answer. They do not necessarily have to pass through all lower levels of response.
- In assessing quantitative answers the “own figure rule” (OFR) must be applied, i.e. a candidate must be given credit for calculations which, though wrong, are consistent with an earlier error.
- Materials in italics below refer to possible issues/ content that candidates might use. These suggestions are neither exhaustive nor necessarily required.
- The emphasis throughout this paper should be upon the integration of the material learnt and the context described within the stimulus material. Candidates are expected to treat both in a synoptic manner, considering situations from a variety of perspectives rather than a series of discrete issues by adopting a holistic/ multi-disciplinary approach.

Question	Answer	Marks	Guidance																																																																																				
1 (a)	<p>The diagram below shows the how a product development cycle could change if SHL were to contract a UK manufacturer. By determining the total float for each activity, identify the critical path.</p> <p>Write your answers as instructed on page 3.</p> <table border="1"> <thead> <tr> <th>Activity</th><th>Duration</th><th>EST</th><th>EFT</th><th>LST</th><th>LFT</th><th>Total Float</th></tr> </thead> <tbody> <tr> <td>A</td><td>6</td><td>0</td><td>6</td><td>0</td><td>6</td><td>0</td></tr> <tr> <td>B</td><td>2</td><td>6</td><td>8</td><td>6</td><td>8</td><td>0</td></tr> <tr> <td>C</td><td>2</td><td>8</td><td>10</td><td>10</td><td>12</td><td>2</td></tr> <tr> <td>D</td><td>4</td><td>8</td><td>12</td><td>8</td><td>12</td><td>0</td></tr> <tr> <td>E</td><td>2</td><td>12</td><td>14</td><td>12</td><td>14</td><td>0</td></tr> <tr> <td>F</td><td>3</td><td>14</td><td>17</td><td>14</td><td>17</td><td>0</td></tr> <tr> <td>G</td><td>10</td><td>14</td><td>24</td><td>51</td><td>61</td><td>37</td></tr> <tr> <td>H</td><td>54</td><td>17</td><td>71</td><td>17</td><td>71</td><td>0</td></tr> <tr> <td>J</td><td>15</td><td>24</td><td>39</td><td>61</td><td>71</td><td>37</td></tr> <tr> <td>K</td><td>5</td><td>71</td><td>76</td><td>71</td><td>76</td><td>0</td></tr> <tr> <td>L</td><td>3</td><td>76</td><td>79</td><td>76</td><td>79</td><td>0</td></tr> </tbody> </table> <p>Critical Path remains A, B, D, E, F, H, K, L</p> <p>or</p> <p>1-2-3-4-6-7-9-10-12</p>	Activity	Duration	EST	EFT	LST	LFT	Total Float	A	6	0	6	0	6	0	B	2	6	8	6	8	0	C	2	8	10	10	12	2	D	4	8	12	8	12	0	E	2	12	14	12	14	0	F	3	14	17	14	17	0	G	10	14	24	51	61	37	H	54	17	71	17	71	0	J	15	24	39	61	71	37	K	5	71	76	71	76	0	L	3	76	79	76	79	0	13	<p>Award 1 mark per correct TF, to a max of 11 marks</p> <p>Award 2 marks for correct critical path, i.e. the activities on the path with zero TF</p> <p>Identifying the correct path independent to a candidate's response to the total float table.</p> <p>Award 1 mark out of 2 for one omission or inclusion of one incorrect letter of the correct path.</p> <p>The critical path answer MUST include in order, a minimum of: A-K-L.</p> <p>Two marks for incorrect path derived from OFR from candidate total float answer.</p> <p>An answer which is not supported with data or method and is not one which is expected achieves zero marks.</p> <p>One or two marks can be awarded either for the activity or nodes.</p> <p>Accept 1 - 2 - 3 - 4 - 6 - 7- 9 - 10 - 12</p> <p><i>NB. Remember to apply the own figure rule.</i></p> <p>Candidates need not use the box for working out. Some may prefer to do their working on the critical path diagram on page 2.</p>
Activity	Duration	EST	EFT	LST	LFT	Total Float																																																																																	
A	6	0	6	0	6	0																																																																																	
B	2	6	8	6	8	0																																																																																	
C	2	8	10	10	12	2																																																																																	
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F	3	14	17	14	17	0																																																																																	
G	10	14	24	51	61	37																																																																																	
H	54	17	71	17	71	0																																																																																	
J	15	24	39	61	71	37																																																																																	
K	5	71	76	71	76	0																																																																																	
L	3	76	79	76	79	0																																																																																	

Question	Answer	Marks	Guidance
1 (b)	<p>Should SHL enter into more contracts with UK clothing manufacturers? Justify your view.</p> <p>UK sourcing aka reshoring</p> <ul style="list-style-type: none"> • Reduces product development times, so allowing faster market response. CPA suggest a reduction from 110 days to 79 days , i.e. 31 days reduction, or 28.2% saving in response • Shortens lead times, from issuing contracts to receipt of goods reduces from 93 days to 62 days, i.e. 31 day reduction, or 33.3% less time, so allowing for faster market response. • Reduces risk of over ordering less popular product lines. Discounting lines (fig 4) results in a 22.9% drop in revenue. • Reduces contractual complexities • Eliminates exchange rate risk with UK suppliers • Reduces risk of theft of brand identity, IPR concerns • Cost advantage of off shoring reducing. How much value does SHL add and can the extra manufacturing costs be passed on to customers or does this need to be absorbed by the company? • Positive brand image; 'market town values' may welcome UK based jobs; economic nationalism. <p>But</p> <ul style="list-style-type: none"> • Costs may be higher, so consider market price sensitivity and shareholders' required returns. • Quality issues and UK skills shortages • Are there suitable UK based suppliers able and willing to take the additional work • Only possible for a portion of the product range, so does adding UK suppliers simply serve to increase contractual and supplier complexity 	18	<p>Levels of response</p> <p>Level 4: 18-12 marks Candidate demonstrates evaluative skills when considering whether SHL should enter into more contracts with UK clothing manufacturers?</p> <p>Level 3: 11-8 marks Candidate demonstrates analytical skills when considering whether SHL should enter into more contracts with UK clothing manufacturers.</p> <p>Level 2: 7-4 marks Candidate demonstrates understanding of factors when a business is considering more contracts with UK manufacturers. No context required.</p> <p>Level 1: 3-1 marks Candidate offers relevant knowledge only.</p> <p>An answer which does not offer a clear justification should be rewarded toward the lower end of the level.</p> <p>An answer which considers more than one point of view but then concludes by suggesting it is not possible to be definite about 'yes' or 'no' can score toward the top of the level</p> <p>Default marks</p> <p>Level 4: 16</p> <p>Level 3: 10</p> <p>Level 2: 6</p> <p>Level 1: 2</p>

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2	<p>Evaluate whether SHL's objectives for the period up to 2016 are appropriate, given the projected anticipated changes in the UK social environment.</p> <p>Demographics (Appendix 2)</p> <table style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th></th> <th>2010-11</th> <th>2012-16</th> <th>2016-21</th> </tr> </thead> <tbody> <tr> <td>0-14</td> <td>1%</td> <td>7%</td> <td>6%</td> </tr> <tr> <td>15-29</td> <td>1%</td> <td>0%</td> <td>-3%</td> </tr> <tr> <td>30-44</td> <td>-1%</td> <td>0%</td> <td>6%</td> </tr> <tr> <td>45-59</td> <td>2%</td> <td>7%</td> <td>-1%</td> </tr> <tr> <td>60-74</td> <td>1%</td> <td>6%</td> <td>6%</td> </tr> <tr> <td>75 & over</td> <td>2%</td> <td>10%</td> <td>15%</td> </tr> <tr> <td></td> <td>1%</td> <td>4%</td> <td>4%</td> </tr> </tbody> </table> <p>Overall population growth 4% over the time period. But target population 'thirty something' where there is no growth. Society changes need not be confined to just demographics; can also consider size and gender mix. Is revenue growth purely a function of the size of the market? Consideration should also be given to life style (SHL is a leisure brand), ethics and values. Impact on lifestyle decisions/purchasing behaviours of people due to celebrity/sportspeople connections with (endorsements/wearing) of the Joules brand etc. Impact of technology in changing consumers' buying habits e.g. Harvey Direct Other factors will impact, e.g. made in Britain, Objective 2016 sales £70m is £19m in two years, 37.2%. But 10-11 27%, 11-12 57%, 12-13 27%, 13-14 42%, so in the last 5 years has grown an average of 53%pa, so 37.2% looks ambitious but reasonable</p>		2010-11	2012-16	2016-21	0-14	1%	7%	6%	15-29	1%	0%	-3%	30-44	-1%	0%	6%	45-59	2%	7%	-1%	60-74	1%	6%	6%	75 & over	2%	10%	15%		1%	4%	4%	18	<p>Levels of response</p> <p>Level 4: 18-12 marks Candidate demonstrates evaluative skills when considering whether SHL's objectives for the period up to 2016 are appropriate, given the projected anticipated changes in the UK social environment.</p> <p>Level 3: 11-8 marks Candidate demonstrates analytical skills when considering whether SHL's objectives for the period up to 2016 are appropriate, given the projected anticipated changes in the UK social environment.</p> <p>Level 2: 7-4 marks Candidate demonstrates understanding of the impact of the social environment on a business' objectives. No context required</p> <p>Level 1: 3-1 marks Candidate offers relevant knowledge only.</p> <p>Impact on strategic objectives will depend on how extensive the changes in the UK social environment are and over what time period. Consideration, and development, of these factors offers a possible route to evaluation. Appropriate and accurate manipulation of the data in Appendix 2 should be rewarded as L3</p> <p>Consideration of other PESTLE factors beyond S does not answer the question set and as such are not rewardable</p>
	2010-11	2012-16	2016-21																																
0-14	1%	7%	6%																																
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Question	Answer	Marks	Guidance
	Exports rising to £7m from £2.6m in 2013, so a near three fold growth. But is this objective driven by changes in UK society. Franchises – societies' attitude to risk and entrepreneurship		Default marks Level 4: 16 Level 3: 10 Level 2: 6 Level 1: 2

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3	<p>Evaluate the extent to which different stakeholders gain an acceptable reward from their relationship with SHL.</p> <p><u>Consumers:</u> High quality distinctive fashion at a competitive price. Analysis of figure 4, PED</p> <table> <tbody> <tr> <td>Men's polo shirt; green; small</td> <td>-2.50</td> </tr> <tr> <td>Men's casual shirt; green check; small</td> <td>-1.33</td> </tr> <tr> <td>Men's casual shirt; yellow check; small</td> <td>-1.00</td> </tr> <tr> <td>Childs polo shirt; pink; large</td> <td>0.40</td> </tr> <tr> <td>Ladies polo shirt; green; small</td> <td>-0.40</td> </tr> <tr> <td>Ladies casual shirt; yellow check; X small</td> <td>-0.42</td> </tr> </tbody> </table> <p>Can PED be used to interpret stakeholder reward; those that wait for the first product to be discounted clearly gain. But early purchasers may feel they do not get an acceptable reward because they may feel they have 'paid over the odds'.</p> <p><u>Customers.</u> Debtors days has shortened 86.9 days (2012) 58.3 days (2013)</p> <p><u>Staff.</u> Salaries bill has increased from £12,374 to £13,405, 8.3% so compare with economic climate. Some staff get meaningful work, overseas travel and creativity, so they may feel well rewarded. But, does that apply to warehouse workers and the shop staff? How will senior executives (non-shareholders) react to the increase in dividends to shareholders?</p>	Men's polo shirt; green; small	-2.50	Men's casual shirt; green check; small	-1.33	Men's casual shirt; yellow check; small	-1.00	Childs polo shirt; pink; large	0.40	Ladies polo shirt; green; small	-0.40	Ladies casual shirt; yellow check; X small	-0.42	18	<p>Levels of response</p> <p>Level 4: 18-12 marks Candidate demonstrates evaluative skills when considering the extent to which different stakeholders gain an acceptable reward from their relationship with SHL.</p> <p>Level 3: 11-8 marks Candidate demonstrates analytical skills when considering the extent to which different stakeholders gain an acceptable reward from their relationship with SHL.</p> <p>Level 2: 7-4 marks Candidate demonstrates understanding of how different stakeholders gain reward from their relationship with a business. No context required</p> <p>Level 1: 3-1 marks Candidate offers relevant knowledge only.</p> <p>NB. Consideration should be given to 'acceptable' and how this is determined and by whom. E.g. are all shareholders financially driven? Also, the two founders (and major shareholders) are also directors, so their reward is not limited to dividends and equity investment growth, they get the other intangible rewards of meaningful and challenging work, 'own boss', personal pride in that 'their' business has grown so spectacularly, etc.</p> <p>Reward candidates in L3 who calculate shareholder ratios or elasticities and comment accurately and appropriately on the outcomes.</p>
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3	<p><u>Suppliers.</u> SHL takes a long time to pay its trade creditors and this will cause suppliers serious cash flow problems. 2012 creditor days =206.7 days. At least it had fallen to 171.2 days in 2013.</p> <p><u>Shareholders</u></p> <table border="1"> <thead> <tr> <th></th> <th colspan="2">2012</th> <th colspan="2">2013</th> </tr> </thead> <tbody> <tr> <td>ROE</td> <td>83/ 8779</td> <td>0.95%</td> <td>3012/10285</td> <td>29.3%</td> </tr> <tr> <td>ROCE</td> <td>288/10501</td> <td>2.7%</td> <td>4962/12933</td> <td>38.4%</td> </tr> <tr> <td>EPS</td> <td>83/456</td> <td>£0.182</td> <td>3012/456</td> <td>£6.605</td> </tr> <tr> <td>DPS</td> <td>627/456</td> <td>£1.375</td> <td>1506/456</td> <td>£3.303</td> </tr> <tr> <td>Gearing</td> <td>1722/10501</td> <td>16.4%</td> <td>2648/12933</td> <td>20.5%</td> </tr> </tbody> </table> <p>NB. Without a share price impossible to calculate PE ratio</p> <p>Looks rewarding for shareholders but need a comparative base.</p> <p><u>Banks/Lenders</u> May feel there is now considerable reward from lending to SHL for example : interest cover in 2012 = 2.1 times 2013 =41.4 times</p> <p><u>Community.</u> SHL brings jobs to the location, multiplier effect but also imposes social costs, which will be higher at Avonmouth than at head office.</p>		2012		2013		ROE	83/ 8779	0.95%	3012/10285	29.3%	ROCE	288/10501	2.7%	4962/12933	38.4%	EPS	83/456	£0.182	3012/456	£6.605	DPS	627/456	£1.375	1506/456	£3.303	Gearing	1722/10501	16.4%	2648/12933	20.5%		<p>Evaluation might arise by discussing the reward and the stakeholders' objective, i.e. does the stakeholder get what they want from their relationship with SHL?</p> <p>If only one stakeholder is discussed, only the top of L3 is attainable.</p> <p>Default marks Level 4: 16 Level 3: 10 Level 2: 6 Level 1: 2</p>
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Question	Answer	Marks	Guidance
4	<p>Should SHL purchase an equity stake in 'mardidi'? Justify your view.</p> <p>Consideration of the accuracy/ objectivity of the revenue projections. Purchase yields 8.4% ARR, with a payback period of 4.475 years (4years 5.7months).</p> <p>But the projections are for the entire brand, so SHL's share of the earnings is $\frac{1}{4}$ of this, so ARR is 2.1% and payback period is 17.9 years!</p> <p>This compares unfavourably with SHL's 2013 ROCE performance of 38.4%.</p> <p>Also, are projected earnings revenues or net profits? If the former then things look even more unattractive.</p> <p>Stake is just 25%, so the \$5m purchase price values the brand at \$20m. Is a two year old business truly worth that?</p> <p>Who are the other 75% owners?</p> <p>Can SHL work with the other shareholders given SHL will have a minority stake?</p> <p>Would the creative people behind 'mardidi' stay or go?</p> <p>Issues of managerial control given physical locations and time difference</p> <p>How important is it that the people who set up the brand remain?</p> <p>Does SHL need to have a 'key man' clause in the purchase contract?</p> <p>If the creative people go, then what exactly is it SHL are buying?</p> <p>If they go, what is to stop them immediately setting up another rival brand?</p> <p>Will SHL's executives attention be diverted from the core business to mardidi and so jeopardise the achievement of the 2016 objectives?</p>	23	<p>Level 4: 23-17 marks Candidate demonstrates evaluative skills when considering whether SHL should purchase an equity stake in 'mardidi'. <i>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.</i></p> <p>Level 3: 16-11 marks Candidate demonstrates analytical skills when considering whether SHL should purchase an equity stake in 'mardidi'. <i>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.</i></p> <p>Level 2: 10-5 marks Candidate demonstrates understanding of purchasing an equity stake in another business. No context required <i>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.</i></p>

Question		Answer	Marks	Guidance
				<p>Level 1: 4-1 marks Candidate offers relevant knowledge only. <i>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.</i></p>
4		<p>What is so special about 'mardidi'?</p> <p>Is there less risk for SHL in buying an 'established' label?</p> <p>Does Ansoff assist here; assessment of risk?</p> <p>Is a brand which is linked to a rap artist consistent with Harvey brand values?</p> <p>Would Harvey customers be comfortable with this image?</p> <p>Is there a risk to the Harvey brand?</p> <p>Given SHL's growth history is this an acquisition that is needed?</p> <p>Economies of scale; real or illusory?</p> <p>Harvey has creative talent, so why not seek to establish an in house sub brand?</p> <p>Greater control, opportunity for employee enrichment, \$5m could buy a lot of UK skill and pay for a lot of market research to establish whether the US brand could successfully cross to the UK.</p> <p>Is organic growth, albeit slower, a better growth strategy compared to his inorganic (external) opportunity?</p>		<p>Reward L3 for candidates who critically compares the ARR/Payback with the current ROCE for SHL.</p> <p>Reward L4 for candidates who compare this investement with the alternatives.</p> <p>Default Marks</p> <p>Level 4: 20</p> <p>Level 3: 14</p> <p>Level 2: 8</p> <p>Level 1: 3</p>

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