

## **Cambridge Technicals**

### **Business**

Unit 3: Business Decisions

Level 3 Cambridge Technical Certificate/Diploma in Business  
**05834 - 05878**

## **Mark Scheme for January 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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Question		Answer	Marks	Guidance
1	a	<p>Responses include:</p> <ul style="list-style-type: none"> <li>owners(Sameer/Janice) – one mark max for identifying either or both owners</li> <li>workers/employees/job titles/cafe manager/Tom (1 mark max for an item from this group, mark rest as REP)</li> <li>trade unions.</li> </ul>	2	<p>One mark for each correct identification to a maximum of two identifications.</p> <p><b>This question assesses synoptic content from Unit 1 LO5 Stakeholders.</b></p> <p style="text-align: right;"><b>ARA</b></p>
1	b	<p>Responses include:</p> <ul style="list-style-type: none"> <li>to allay fears</li> <li>to motivate staff</li> <li>to gain useful ideas/opinions.</li> </ul> <p>Exemplar response: e.g. This communication may allay fears (1) that the workforce has about the business being in difficulty and not being able to pay their wages.(1) .If this is not addressed before changes start to be made staff may decide to leave the business.(1)</p>	3	<p>One mark for a correct identification up to a further two marks for an explanation.</p> <p>For full marks must address the factor of “<b>before</b> taking major decisions”.</p> <p style="text-align: right;"><b>ARA</b></p>
2	a	<p>Responses include:</p> <ul style="list-style-type: none"> <li>revenue equal to total costs</li> <li>neither a profit nor loss</li> <li>output at which start to make a profit.</li> </ul>	1	<p>One mark for a correct identification.</p> <p><b>This question assesses synoptic content from Unit 1 LO4 Financial information.</b></p> <p style="text-align: right;"><b>ARA</b></p>

Question		Answer	Marks	Guidance
2	b	<p>Indicative content:</p> $\text{Break-even} = \frac{\text{FC}}{\text{Price} - \text{VC}} \quad \text{or} \quad \frac{\text{FC}}{\text{Contribution per unit}}$ $\frac{\pounds 1500000}{\pounds 10.00 - 8.00} = \frac{1500000}{2} = \mathbf{750000 \text{ litres}}$ <p>Award full marks for the correct answer: 750000.</p> <p>E.g. 750000 (2)</p> <p>E.g. <math>\frac{\pounds 1500000}{\pounds 10.00 - 8.00}</math> (1)</p> <p>E.g. Break-even = <math>\frac{\text{FC}}{\text{Price} - \text{VC}}</math> (1)</p>	2	<p>Up to two marks:</p> <p>No workings required</p> <p>Award full (2) marks for 750000</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>
2	c	<p>Indicative content:</p> <p>Margin of safety = actual sales – break-even sales level</p> <p>800000 – 750000 (OFR)</p> <p>Award full marks for the correct answer: 50000.</p>	2	<p>Up to two marks</p> <p>No workings required</p> <p>Award full (2) marks for 50,000.</p> <p>OFR applies to break-even sales level from 2b: annotate using OFR with ticks to indicate marks awarded</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> <p style="text-align: right;"><b>ARA</b></p>

Question		Answer	Marks	Guidance
2	d	<p>Responses include:</p> <ul style="list-style-type: none"> <li>• reduce (fixed/variable/total) costs</li> <li>• increase selling price.</li> </ul> <p>Exemplar response: e.g. Sameer could negotiate cheaper prices for the raw materials (1) this will reduce total costs (1)</p>	2	<p>One mark for a correct identification plus a further one mark for an explanation</p> <p style="text-align: right;"><b>ARA</b></p>
3	a	<p>Indicative content: Rate of labour turnover = <math>\frac{\text{Number of employees leaving}}{\text{Average number of employees}}</math></p> <p><math>\frac{10}{25} \times 100 = 40\%</math></p> <p>Award full marks for the correct answer: 40%.</p> <p>e.g. 40 (2)</p> <p>e.g. <math>\frac{\text{Number of employees leaving}}{\text{Average number of employees}}</math> (1)</p> <p>e.g. <math>\frac{10}{25}</math> (1)</p>	2	<p>Up to two marks.</p> <p>No workings required.</p> <p>Award full (2) marks for 40.</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
3	b	<p>Responses include:</p> <ul style="list-style-type: none"> <li>• turnover is comparatively high</li> <li>• lack of continuity for the business</li> <li>• high cost of recruitment</li> <li>• increased training costs.</li> </ul> <p>Exemplar response: Turnover is very high (1) suggesting that there are problems within the workforce (1)</p>	2	<p><b>Contains 1 embedded mark from unit 1</b></p> <p>One mark for a correct identification plus a further one mark for an explanation</p> <p style="text-align: right;"><b>ARA</b></p>
3	c	<p>Responses Include:</p> <ul style="list-style-type: none"> <li>• low level of wages paid</li> <li>• poor morale</li> <li>• other available employment</li> <li>• non-flexible working</li> <li>• poor management</li> <li>• staff are bored</li> <li>• staff are not motivated.</li> </ul> <p>Exemplar response: <i>IceCrazy</i> employs a lot of seasonal workers (1) and may therefore only pay minimum wage (1). If other employers are offering higher wages this will lead to staff leaving (1).</p>	3	<p>One mark for a correct identification plus up to two further marks for explanation.</p> <p style="text-align: right;"><b>ARA</b></p>
4	a	<p>Indicative content:</p> <ul style="list-style-type: none"> <li>• Market Penetration</li> </ul>	1	<p>For one mark.</p> <p>Mark as incorrect if more than one item is circled</p>

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4	b	<p>Responses Include:</p> <ul style="list-style-type: none"> <li>Helps analyse the overall position of the business</li> <li>By dividing into four categories forces management to consider a range of options, not just focus on one</li> <li>Helps assess the level of risk.</li> </ul> <p>Exemplar response: By splitting business strategies into these four categories (L1) The Ansoff matrix will help Sameer and Janice to assess the level of risk (L1) associated with opening up a larger ice cream café (L2). The Ansoff matrix helps establish that this option represents market penetration (L2) because a bigger café is still selling the same product to the same market, which is the least risky of the four categories (L2).</p>	4	<p><b>Levels of response</b></p> <p><b>Level 2 (3-4 Marks)</b> Candidate explains the benefit(s) to <i>IceCrazy</i> of using Ansoff's Matrix.</p> <p><b>Level 1 (1-2 Marks)</b> Candidate explains benefit(s) of Ansoff's Matrix with no use of context.</p> <p style="text-align: right;"><b>ARA</b></p>
5		<p><b>Use level of response criteria.</b></p> <p>Responses include:</p> <ul style="list-style-type: none"> <li>selection of target market</li> <li>extent to which market is growing</li> <li>establishing USP/features of product</li> <li>appropriate pricing strategies</li> <li>promotion</li> <li>very tight budget.</li> </ul> <p>Exemplar response: The first thing that Sameer will need to understand is the target market (L1) for the new products. This is because these low fat "healthier" products will appeal to different groups of people (L2) to their existing luxury ice cream. This means that different strategies will need to be used to ensure that the new range penetrates this market and ultimately has demand and sells well (L3) The new product range represents diversification for the</p>	12	<p><b>NB: This question includes one embedded marks for applying knowledge from Unit 1 LO2 Functional areas.</b></p> <p><b>Levels of response</b></p> <p><b>Level 4 (10 - 12 marks)</b> Candidate evaluates the factors that <i>IceCrazy</i> will need to consider when launching the new product range</p> <p><b>Level 3 (7 - 9 marks)</b> Candidate analyses factor(s) that <i>IceCrazy</i> will need to consider when launching the new product range</p> <p><b>Level 2 (4 – 6 marks)</b> Candidate explains factor(s) that <i>IceCrazy</i> will need to consider when launching the new product range.</p> <p><b>Level 1 (1 – 3 marks)</b> Candidate identifies relevant factor(s) to consider when launching a new product.</p>

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	<p>company (L1) and should be seen by the company as part of a strategy to achieve competitive advantage (L2). To ensure that the products are well received Sameer will need to identify and promote the key features of the product (L1), which are low fat, low sugar therefore low calorie (L2). This will establish brand identity, which is particularly important in this very competitive market (L3).</p> <p>Good promotion is a very important factor (L1) and part of this, when launching a new product is pricing strategies (L1). Sameer could consider low introductory prices to encourage restaurant managers to try the new products in their restaurants (L2). A key factor for Sameer is getting the product into the restaurants and if he achieves this and the good quality/good taste of the product is recognised by customers, then the likelihood of re-ordering even if prices go up, are high (L3).</p> <p>Finally, the method of promotion is very important (L1). <i>IceCrazy</i> already has a website and uses social media (L2) and these should be extensively used for the new products. Further advertising must also be considered, such as e-mail campaign, leaflet drop to restaurants (L2), but Sameer does need to be aware of the cost of this and stay within his budget (L3)</p> <p>All these factors are very important and I think that promotion is the most significant because it informs potential new customers about the product. However, he must properly consider who his target audience is to promote to the right people; focus on the key features of the product in this promotion and make the price attractive, to ensure the success of the venture (L4).</p>		

Question		Answer	Marks	Guidance
6	a (i)	Indicative content: <ul style="list-style-type: none"> <li>Gantt Chart.</li> </ul>	1	For one mark
6	a (ii)	Responses include: <ul style="list-style-type: none"> <li>plan resources needed</li> <li>show the order tasks should be completed</li> <li>help assess how long a project should take</li> <li>show clearly relationship between tasks</li> <li>help with the time management of tasks.</li> </ul> <p>Exemplar response: Reason Gantt charts allow managers to plan the resources needed (1) so that they are available when required (1).</p>	2	One mark for a correct identification plus a further one mark for an explanation.  <b>ARA</b>
6	b	Responses include: <ul style="list-style-type: none"> <li>Reliability</li> <li>Bias</li> <li>Relevance</li> <li>Complexity</li> <li>Degree of detail</li> <li>Currency (up to date)</li> <li>Intended use</li> <li>Quality.</li> </ul>	1	One mark for a correct identification.  <b>ARA</b>

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6	c	<p>Responses include:</p> <ul style="list-style-type: none"> <li>Involving staff in the decisions/planning</li> <li>Listening to the views of staff</li> <li>Be upfront about all possible changes</li> <li>Take the time to talk to staff and allay fears</li> <li>Increase wages</li> <li>Fringe benefits</li> </ul> <p>Exemplar response: If staff are involved in the decisions that are being made (1) they will much better understand why they are happening (1)</p>	4	<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 style="text-align: right;"><b>ARA</b></p>																												
7		<table border="1"> <thead> <tr> <th></th> <th>Option 1 Larger ice cream parlour</th> <th>Option 2 Healthier flavours</th> <th>Option 3 Soft play and ice cream cafe</th> </tr> </thead> <tbody> <tr> <td>Cost</td> <td>£55,000</td> <td>£7,000</td> <td>£85,000</td> </tr> <tr> <td>Additional revenue expenditure</td> <td>Lease and wages 35000</td> <td>None</td> <td>Lease and Wages 40000</td> </tr> <tr> <td>Payback</td> <td>3 years 8 months</td> <td>2 years 3 months</td> <td>5 years 2 months</td> </tr> <tr> <td>ARR</td> <td>27%</td> <td>51%</td> <td>19%</td> </tr> <tr> <td>Finance</td> <td>Reserves + external</td> <td>Reserves</td> <td>Reserves + external</td> </tr> <tr> <td>Legal constraints</td> <td>None</td> <td>None</td> <td>Planning permission DBS checks</td> </tr> </tbody> </table> <p>Exemplar responses:</p> <p><b>e.g. hybrid of accounting and finance and general business perspective</b></p>		Option 1 Larger ice cream parlour	Option 2 Healthier flavours	Option 3 Soft play and ice cream cafe	Cost	£55,000	£7,000	£85,000	Additional revenue expenditure	Lease and wages 35000	None	Lease and Wages 40000	Payback	3 years 8 months	2 years 3 months	5 years 2 months	ARR	27%	51%	19%	Finance	Reserves + external	Reserves	Reserves + external	Legal constraints	None	None	Planning permission DBS checks	16	<p><b>NB: This question includes two embedded marks for applying knowledge from Unit 1 LO8 Assess business performance.</b></p> <p>This question can be answered from a general business perspective or from the perspective of a specific pathway/function (or a hybrid of both). In all cases the same level of response criteria apply.</p> <p><b>Levels of response</b></p> <p><b>Level 4 (13 - 16 marks)</b> Candidate recommends and justifies which option <i>IceCrazy</i> should take.</p> <p><b>Level 3 (9 - 12 marks)</b> Candidate analyses one or more options under consideration at <i>IceCrazy</i>.</p> <p><b>Level 2 (5 – 8 marks)</b> Candidate explains issues relating to one or more options under consideration at <i>IceCrazy</i>.</p>
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	<p>It is important to consider the capital cost of each option when choosing between options <b>(L1)</b>. On the face of it Option 2 looks like the right decision because it is the cheapest of the three options <b>(L2)</b> and could be funded from reserves. The payback period, although not the shortest, is in the middle of the 3 options at 5 years and the ARR is a very healthy 51%. <b>(L2)</b>. The level of risk factor for option 2 is therefore low. In addition to this, qualitative evidence in the article from Reuters, shows that there is a demand for healthier options in this market <b>(L2)</b>. My recommendation, would therefore, be for <i>IceCrazy</i> to implement option 2 because it will return increased profits from a small capital investment, without the need for borrowing. It helps secure the long-term future of the company by increasing the number of customers that regularly buy from them, whilst moving into a market that is growing <b>(L3)</b>.</p> <p>However, I think that <i>IceCrazy</i> should also consider option 1, which although the Boston Matrix would put this option as a question mark, the Ansoff Matrix establishes it as low risk because it achieves growth by selling existing products in an existing market <b>(L2)</b>. Additional borrowing would be required which increases risk for the business. However, the current lease is about to expire, which would require further capital expenditure simply to keep the current café open <b>(L2)</b>. This means that at least half of the proposed expenditure on the new lease would have to have been spent anyway, making option 1, with its much larger capacity and take away facility a much more attractive proposition <b>(L3)</b>. Option 1, would increase <i>IceCrazy</i>'s customer satisfaction with the option for takeaway and less queues in the summer months. With a careful project plan to ensure that costs do not escalate and increased use of social media to increase the</p>		<p><b>Level 1 (1 – 4 marks)</b> Candidate identifies issues related to decision making.</p> <p style="text-align: right;"><b>ARA</b></p> <p><b>L4</b> evaluation – Award 13 marks for suggesting the most beneficial option for Ice Crazy with justification for the choice. Award 14 marks for suggesting the best option in context with justification. Award 15 marks for a detailed <i>or</i> specific contextual judgement of the most suitable option. Award 16 marks for a detailed <i>and</i> specific contextual judgement of the most suitable option.</p>

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	<p>customer base option 1, with its 10 year lease will secure long term growth for <i>IceCrazy</i> (L3).</p> <p>Option 3 represents such a large diversification into an area where the owners have little expertise and the level of borrowing will be so high, that I think that the risk is too great (L4). With a combination of option 1 and option 2, <i>IceCrazy</i> will have the opportunity to grow the wholesale and retail side of the business together, with each owner taking responsibility for one venture, thus securing the long term future of the company (L4).</p>		

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