

Cambridge Technicals

Business

Unit 1: The business environment

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
SECTION A			
1	Indicative content: D	1	For one mark.
2	Indicative content: C	1	For one mark.
3	Indicative content: B	1	For one mark.
4	Indicative content: C	1	For one mark.
5	Indicative content: A	1	For one mark.
6	Indicative content: A	1	For one mark.
7	Indicative content: A	1	For one mark.
8	Indicative content: C	1	For one mark.
9	Indicative content: C	1	For one mark.
10	Indicative content: B	1	For one mark.
11	Indicative content: C	1	For one mark.
12	Indicative content: C	1	For one mark.
13	Indicative content: D	1	For one mark.
14	Indicative content: D	1	For one mark.
15	Indicative content: B	1	For one mark.
16	Indicative content: C	1	For one mark.
17	Indicative content: C	1	For one mark.
18	Indicative content: A	1	For one mark.
19	Indicative content: C	1	For one mark.
20	Indicative content: B	1	For one mark.

SECTION B					
21			<p>Responses include:</p> <ul style="list-style-type: none"> financial aim – e.g. to breakeven, to make money, to be profitable, to increase revenue, improve cash-flow, reduce costs. non-financial aim – e.g. to survive, to expand/grow, to improve customer service/satisfaction, to increase output, to become the market leader, to help those in need, to improve reputation, to be environmentally friendly, to be safe, to raise awareness, to be clean and tidy, to buy equipment. 	2	<p>One mark for a correct identification of a financial aim. One mark for a correct identification of a non-financial.</p> <p>Aims need to be appropriate for the business which the learner has researched.</p> <p>‘Growth’ and ‘survival’ (unless qualified) should be taken to be non-financial.</p> <p>Accept ‘keep customers happy’ as ‘customer satisfaction’.</p>
22			<p>Responses include:</p> <ul style="list-style-type: none"> receive complaints conflict lack of goodwill protests bad reviews campaigns petitions involvement of local MP involvement of local council involvement of pressure groups bad publicity poor reputation legal action objection to planning applications. <p>Exemplar response:</p> <p>Name of business: Bread Supreme Ltd Activity of business: Bakery Local residents may object to any planning applications the company put in (1). If enough objections are raised the company’s planning application is likely to be rejected (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>Accept explanations of cause or consequence.</p> <p>Accept consequences of local residents as customers.</p> <p>Do not award repetition.</p> <p>Answer should be appropriate for the business which the learner has researched.</p>

SECTION B				
23		<p>Responses include:</p> <ul style="list-style-type: none"> • serve on the help desk • answer telephone calls • listen to customers • help/advise customers • liaise with customers • manage customer expectations • investigate problems • check receipts • search the stock database • resolve queries • sort out problems • issue refunds • deal with replacements and returns. <p>Exemplar response:</p> <p>Name of business: Marks and Spencer Activity of business: Clothing retailer They must greet the customers (1) who come to the help desk politely (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 developments.</p> <p>NB description not explanation required for second mark i.e. how not why.</p> <p>Must be an activity. Must be part of customer service job role.</p> <p>Answer must be appropriate for the business which the learner has researched.</p> <p>Look for an activity or what first. Without a 'what' no marks can be awarded.</p>

SECTION B					
24			<p>Responses include:</p> <ul style="list-style-type: none"> • owners' savings (sole trader, partnership) • company reserves/retained profits • loan • mortgage • hire purchase • trade credit • venture capitalist • share issue/get more investors • crowd-funding • overdraft • credit card • government funding • donations • sponsorship. <p>Exemplar response:</p> <p>Name of business: Barkers Ltd Activity of business: Pet shop The company could pay for the expansion from its reserves (1). This would mean that it did not need to use expensive external sources of finance (1) keeping the cost of the expansion to a minimum (1).</p>	6	<p>One mark for a correct identification up to a maximum of two identifications, plus one mark for each of two explanations and a further one mark for each of two analyses.</p> <p>Award second mark for benefits or drawbacks of methods required. Do not award uses of the funds.</p> <p>Answer should be appropriate for the business which the learner has researched.</p>

SECTION B			
25		<p>Responses include:</p> <ul style="list-style-type: none"> organisational structure of selected business e.g. flat, hierarchical, centralised, decentralised, matrix, by function, by product etc (1). impacts on internal communications e.g. chain of command, speed, quality, responsiveness to change, top down, bottom up, span of control, empowerment, delegation, alienation, remoteness, miscommunication, non-communication, barriers to effective communication, poor communication between functional areas. <p>Exemplar response:</p> <p>Name of business: Pavin's plc Activity of business: Carpet manufacturer Parvin's plc has a tall structure (1). Messages must be passed down through many levels before they reach the operatives (1). This makes the communication slow (1) and introduces many opportunities for the messages to be miscommunicated or misunderstood (1).</p>	<p>4</p> <p>One mark for identification of organisational structure plus one mark for each point of development, to a maximum of three developments.</p> <p>Development must link to internal communication. Do not award answers relating to external communication, costs etc.</p> <p>Answer should be appropriate for the business which the learner has researched.</p>

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26			<p>Indicative content:</p> <ul style="list-style-type: none"> at the top/highest tier/above everyone else. 	1	One mark for a correct identification.
27			<p>Responses include:</p> <ul style="list-style-type: none"> incorporation (1)/separate legal identity (1) business rather than owner sued limited liability (1)/only lose share investment (1) tax advantages (1)/corporation tax rate lower than income tax rate (1) business continuity shares can be issued reduced financial risk appears to be a more established business banks may be more willing to lend to incorporated businesses/easier to get a bank loan. <p>Exemplar response:</p> <p>e.g. Lee will benefit from limited liability (1). This means Lee cannot be forced to give up his family's home to pay the company's debts (1).</p>	2	<p>One mark for a correct identification, plus a further one mark for an explanation.</p> <p>Must be in comparison to a sole trader. Do not award 'only sell shares to family and friends' as this is in comparison to a public limited company.</p> <p>Do not award references to 'sole responsibility' as Lee is the only shareholder of the company.</p> <p>NB take care with answers relating to 'shares'. If comparing with a sole trader the response is likely to be correct. However, if comparing to a plc then the answer is likely to be incorrect.</p>
28	(a)		<p>Indicative content:</p> <ul style="list-style-type: none"> must register with Information Commissioner data obtained and processed lawfully data kept only for the purposes registered data not disclosed/used for any other purpose data adequate, relevant and not excessive data accurate and kept up to date data not kept longer than necessary 	2	<p>One mark for each correct identification, to a maximum of two identifications.</p> <p>Do not award 'must get permission to store data'.</p> <p>Do not award 'must not sell data' ('without consent' is a required part of the answer).</p>

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			<ul style="list-style-type: none"> • data must be kept safe/secure/protected • must not sell the data without explicit consent • not to be traded outside the EU • duty to disclose to data subject on request • timely correction and deletion of incorrect data. 	
28	(b)	<p>Use level of response criteria.</p> <p>Responses include:</p> <ul style="list-style-type: none"> • legal action • fines and compensation • imprisonment • court costs • legal support – time, cost • bad publicity • negative effect on reputation e.g. lose customers • corporate image may suffer e.g. disreputable company • may lose trading licence/be shut down • recruitment difficulties • customer boycott • business failure • saves time e.g. files will not be updated • saves money e.g. less labour time administering file maintenance • may make money from (illegally) selling the database • increased (but illegal) marketing activity • effect on sales • effect on cash-flow • effect on profit. 	12	<p>Levels of response</p> <p>Level 4 (10 - 12 marks) Candidate evaluates possible consequences to <i>Marcin Holidays Ltd</i> if it failed to comply with the Data Protection Act.</p> <p>Level 3 (7 - 9 marks) Candidate analyses possible consequences to <i>Marcin Holidays Ltd</i> if it failed to comply with the Data Protection Act.</p> <p>Level 2 (4 – 6 marks) Candidate explains possible consequences to <i>Marcin Holidays Ltd</i> if it failed to comply with the Data Protection Act.</p> <p>Level 1 (1 – 3 marks) Candidate identifies possible consequences to <i>Marcin Holidays Ltd</i> of failing to comply with the Data Protection Act.</p> <p>Consequences must be on the business, can be positive or negative.</p> <p>NB the question does not ask whether or not the business should obey the law, it asks for an evaluation of consequences.</p> <p>L4 evaluation – Award 10 marks for an overall judgement of the seriousness of the consequences. Award 11 marks for short term/long term argument. Award 11 for a generic judgement of the biggest or most serious consequence. Award 12 marks for a contextual judgement of the biggest or</p>

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		<p>Exemplar response:</p> <p>E.g. The reputation of <i>Marcin Holidays Ltd</i> is likely to be damaged if it fails to comply with the Data Protection Act (L1) because customers will not want to give their details to a business that does not keep its data safe (L2). Even regular customers are likely to purchase their holidays from another travel agent, adversely affecting sales revenue and the company's cash flow position (L3).</p> <p><i>Marcin Holidays Ltd</i> could receive a fine (L1) for storing customers' travel preference information without permission (L2). A fine would increase business costs and reduce profits (L3).</p> <p>Since Lee Marcin has spent over 25 years building up a good reputation for his business, losing this reputation is likely to be the most serious consequence to the company of failing to comply with the Data Protection Act. Re-gaining this reputation, if it was possible at all, would take many years, and in that time profits would suffer and the viability of the business be threatened (L4).</p>		<p>most serious consequence.</p>
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29	(a)	<p>Responses include:</p> <ul style="list-style-type: none"> • speak to Lee/ask again/further discussion • threaten to leave/leave • join a trade union • collective bargaining • compromise on the size of pay rise requested • withdraw goodwill • industrial action e.g. work to rule, sit-in, work-in, overtime ban, strike • use A.C.A.S. 	1	<p>One mark for a correct identification.</p> <p>'Get external help' too vague. Candidates need to name an external body that could help.</p> <p>Do not award pressure groups.</p>
29	(b)	<p>Responses include:</p> <ul style="list-style-type: none"> • drawback – increase costs, increase break-even, lower profit, worsen cash-flow. • benefit – improve workforce motivation, fewer sick days, lower unauthorised absenteeism, lower labour turnover, increased productivity, improved customer service, enhanced reputation. <p>Exemplar response:</p> <p>One drawback of granting the pay rise would be an increase in the costs of the business (1). This would increase the value of holidays which need to be sold to break-even (1).</p> <p>One benefit of granting the pay rise would be that it is likely to make the employees feel more valued (1) leading them to work even harder for the company (1).</p>	4	<p>One mark for a correct identification of a drawback, plus a further one mark for consequence. One mark for a correct identification of a benefit, plus a further one mark for consequence.</p> <p>Accept consequences to Lee Marcin and his family.</p>

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30		<p>Use level of response criteria.</p> <p>Indicative content:</p> <ul style="list-style-type: none"> • annual profit always above £40,000 • profit relatively stable – gradual rise and fall • fall in profit in recent years • profit peaked in 2014 (£52,000) • 2015 and 2016 profit fallen but still higher than in 2012 • Marcin Holidays Ltd 2012 profit higher than competitor's • competitor's profit higher than Marcin Holidays Ltd in 2013 onwards • competitor's profit on an upward trend • falling more and more behind competitor's figures • is there value in comparing with a competitor e.g. different circumstances, attitude to risk, objectives, accounting methods, use/handling of profit/retained profit/reserves • is £40,000 baseline comfortable or just adequate • importance of £40,000 baseline i.e. for daughter's university education, supporting family • different business purposes • what is causing the trend differences • impact of higher unemployment in the area likely to reduce profits further • business getting very close to the £40,000 viability threshold • other more important financial goals • other more important non-financial goals 	12	<p>Levels of response</p> <p>Level 4 (10 - 12 marks) Candidate evaluates the profit performance of <i>Marcin Holidays Ltd</i>.</p> <p>Level 3 (7 - 9 marks) Candidate analyses the profit performance of <i>Marcin Holidays Ltd</i>.</p> <p>Level 2 (4 – 6 marks) Candidate explains <i>Marcin Holidays Ltd's</i> profit performance issue(s).</p> <p>Level 1 (1 – 3 marks) Candidate identifies <i>Marcin Holiday Ltd's</i> profit performance issue(s).</p> <p>Do not award causes or solutions. The question solely relates to data response.</p> <p>L1 – states from graph e.g. profit in 2013 was £49,000.</p> <p>L2 – explains trends or uses comparisons e.g. the company's profit in 2013 was smaller than its competitor's profit.</p> <p>L4 – overall judgement of the business' profit performance which builds from previous analysis. Award 10 marks for a generic argument. Award 11 marks for an argument with context. Award 12 marks for a detailed, specific, contextual argument.</p>

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			<p>Exemplar response:</p> <p>e.g. <i>Marcin Holidays Ltd's</i> profit in 2013 was £45,000 (L1). Its profits have been falling since 2014 (L2). Since the local competitor, who has a similar sized business, has continued to experience an upward trend in profits, this should be a serious cause for concern for Lee (L3).</p> <p>Despite profit levels remaining over the minimum threshold of £40,000, an unexpected fall in profits is always a major cause for concern. This is especially true for Lee who relies on the profit that the business makes to support his family. Even more so because Lee currently has the additional financial responsibility at this time of supporting his eldest daughter through her university years (L4).</p>		
31	(a)		<p>Indicative content:</p> <ul style="list-style-type: none"> assets – something the business owns/item which belongs to the business. creditors – people/organisation the business owes money to/someone who has lent the business money. 	2	<p>One mark for each correct identification, to a maximum of two identifications.</p> <p>Do not award examples.</p> <p>Creditors – do not award 'money the business owes' – this would be an explanation of the term 'liability'. A creditor is the party that the business owes money to.</p> <p>Creditors – do not award 'people who <u>give</u> money to the business'.</p>

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31	(b)		<p>Indicative content:</p> <ul style="list-style-type: none"> worsened – money in bank (decreased), current assets (decreased), profit (decreased) improved – trade receivables/debtors/the amount owed to the business (increased), trade payables/creditors/amount owed by the business (decreased), net assets (increased), equity shareholders' funds (increased), net worth of the company (increased). 	<p>2</p> <p>One mark for each correct identification, to a maximum of two identifications.</p> <p>Increase/decrease not required. However, if stated it must be correct.</p> <p>Accept a fall in profit as this is shown in Fig. 1.</p>
32			<p>Use level of response criteria.</p> <p>Indicative content:</p> <ul style="list-style-type: none"> trade down change target market change product range offer more budget holidays move away from its specialism of luxury holidays switch from U.S.A. holidays to cheaper destinations sell all-inclusive holidays offer more coach and train travel offer more weekend breaks offer more UK city breaks reduce prices emphasise price over quality offer more promotions and special deals use the shop window for more advertising use price competition set up payment plans/savings schemes offer credit loyalty cards 	<p>12</p> <p>Levels of response</p> <p>Level 4 (10 - 12 marks) Candidate evaluates how <i>Marcin Holidays Ltd</i> should respond to the significant rise in unemployment in the local area.</p> <p>Level 3 (7 - 9 marks) Candidate analyses ways in which <i>Marcin Holidays Ltd</i> could respond to the significant rise in unemployment in the local area.</p> <p>Level 2 (4 – 6 marks) Candidate explains ways in which <i>Marcin Holidays Ltd</i> could respond to the significant rise in unemployment in the local area.</p> <p>Level 1 (1 – 3 marks) Candidate identifies ways in which <i>Marcin Holidays Ltd</i> could respond to the significant rise in unemployment in the local area.</p> <p>Do not award answers relating to <i>Marcin Holidays Ltd</i> doing charity work, good deeds or behaving ethically towards the unemployed e.g. offering training or food parcels.</p>

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- special discounts
- advertise more widely
- create a website to reach a wider audience
- refuse existing employee pay rise
- take on employees with IT skills
- relocate the business.

Exemplar response:

e.g. The travel agency could sell less expensive holidays **(L1)**. Rather than specialising in luxury holidays it could offer a range of more affordable holidays, including more activity holidays and short breaks in the UK **(L2)**. This would make the holidays more attractive to families on a tight budget, increasing *Marcin Holidays Ltd's* chances of breaking-even **(L3)**.

The travel agency could advertise more promotional offers in the window **(L1)**. This will entice prospective customers to come inside to speak to a travel consultant **(L2)**, increasing footfall and, hopefully, sales **(L3)**.

The most effective way to respond to a significant rise in unemployment in the local area is likely to be to sell less expensive holidays. The average customer's spending power has reduced and demand has to adjust accordingly. By meeting the needs of consumers with lower disposable incomes the company should be able to maintain its volume of sales. However, I recommend Lee combines a number of measures, not only offering less expensive prices and advertising more promotional offers but also creating a website to reach a wider target audience and offer customer payment plans. A combined package should have an even greater impact on restoring sales revenue and profits **(L4)**.

Do **not** accept answers about paying lower wages (they are already paying minimum wage).

Do **not** award 'it should give them jobs'.

Do **not** award 'expansion' as this is not appropriate for a potential fall in demand. Therefore, do **not** award arguments about employing more staff in general.

However, accept specific arguments relating to employing IT specialists to create a website.

Answer must be appropriate for a fall in unemployment.

L4 – a judgement as to the best course of action for the business to take, supported by previous analysis. Award 10 marks for a generic argument. Award 11 marks for an argument with context. Award 12 marks for a detailed, specific, contextual argument.

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