

## A LEVEL

*Exemplar Candidate Work*

# ***BUSINESS***

**H431**

For first teaching in 2015

## **H431/01 Summer 2017 examination series**

Version 2

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# Introduction

These exemplar answers have been chosen from the summer 2017 examination series.

OCR is open to a wide variety of approaches and all answers are considered on their merits. These exemplars, therefore, should not be seen as the only way to answer questions but do illustrate how the mark scheme has been applied.

Please always refer to the specification (<http://www.ocr.org.uk/Images/170837-specification-accredited-a-level-gce-business-h431.pdf>) for full details of the assessment for this qualification. These exemplar answers should also be read in conjunction with the sample assessment materials and the June 2017 Examiners' Report to Centres available on the OCR website <http://www.ocr.org.uk/qualifications/>.

The question paper, mark scheme and any resource booklet(s) will be available on the OCR website from summer 2018. Until then, they are available on OCR Interchange (school exams officers will have a login for this).

It is important to note that approaches to question setting and marking will remain consistent. At the same time OCR reviews all its qualifications annually and may make small adjustments to improve the performance of its assessments. We will let you know of any substantive changes.

## Question 16

Will produced 'a very detailed business plan' (Line 15) and it helped him to gain the finance he needed to start WFC.

**Other than** helping to raise finance, analyse one likely advantage to Will of producing a detailed business plan for the start-up of his business.

[6]

### 3 out of 6 marks

Another advantage to Will producing a detailed business plan is that it will help him establish his business. This is because he will have identified any relevant costs the business may encounter therefore he will be able to create SMART targets in order to ensure he is going to break even. This is a likely benefit as in the first year of business an owners likely objective would be to survive, therefore having an indication of costs would mean he would be more financially responsible in order to break even.

[6]

### Examiner commentary

This example is a little better than the previous two, as there is at least some implied context. When referring to the target of break-even there is mention of only aiming to survive in the first year of business. There is then a limited piece of analysis - a recognition that knowledge about costs from a business plan may encourage the owner to be more financially responsible.

Once an answer reaches this stage, it can easily be improved to reach a higher mark. More explicit context would help. In addition, with three AO3 marks available, the analysis needs to be stronger (although this can be achieved with just one piece of developed analysis).

For example, "Given the large start up costs, with capital equipment alone appearing to be around £100,000, Will would have been better able to make a decision about whether his business would reach break-even and how soon after start up. The business plan may have helped him to realise that the business was not viable or that he needed to find a way to reduce start up costs, such as a cheaper location or buying second hand capital."

These two sentences would be enough for full marks, as they contain knowledge (the plan helps to forecast break-even), there is explicit context and there is a detailed piece of analysis about how the business plan may have helped Will during the start up phase of his business.

# Question 16

Will produced 'a very detailed business plan' (Line 15) and it helped him to gain the finance he needed to start WFC.

**Other than** helping to raise finance, analyse one likely advantage to Will of producing a detailed business plan for the start-up of his business.

[6]

## 1 out of 6 marks

By having a detailed business plan it will help keep <sup>Will</sup> ~~the~~ and his employees on track as a good business plan will set out clear objectives and if people are aware of the objectives of the business then there is a good chance that they will work more efficiently towards achieving those <sup>business</sup> ~~business~~. They are more likely to be achieved which is good for the business, and the clear targets will also keep employees motivated as they are aware of the end goal. If his objectives in the business plan are 'SMART' (Sensible, measurable, Achievable, Realistic and time based) then this shows ~~good~~ <sup>Druckers</sup> good setting theory ~~and~~ motivation. [6]

of motivation whereby people (employees) are motivated by having targets / objectives.

## Examiner commentary

The key point to emphasise about all of the questions in Section B of this component is that every question requires some use of, or reference to, the Resource Booklet (i.e. each question is in context). Candidates have been provided with a lot of information about 'Will's Fish & Chips (WFC)' and it is paramount that answers are written with reference to the evidence available.

This first question was very clearly about the benefits of producing a business plan for a start up business. This answer make no reference to WFC explicitly or implicitly (by writing about a **start up business**). It mentions how the business plan can help to set out clear objectives (which gains the AO1

knowledge mark) but there is then no reference to WFC. For example, objectives could be based around customer numbers dependent on the opening hours or final location chosen (both issues mentioned in the Resource Booklet). Alternatively, mention could be made of the dangers of a new business 'drifting aimlessly' without a clear set of objectives to guide it.

Candidates must put answers in context to gain higher marks.

## Question 17

During the writing of the business plan, Will 'had to consider a number of legal factors' (Line 23). Analyse **one** legal factor which might affect the operation of WFC.

[7]

### 6 out of 7 marks

Will would have had to consider the legal identity of the business - and he chose sole trader. This gives him unlimited liability meaning he might take less risks in the business as if he gets into debt he personally becomes accountable for any repayments due to his liability status. This means when he comes to trying to achieve finance he may be too conservative meaning expansion can't happen quick enough as he is potentially not going to take risks. Getting credit is also much harder due to the fact he is a small enterprise with a potential lack of security meaning credit is less attainable. ~~and~~ His legal identity also means he pays income tax not corporation tax so his tax percentage is likely to be higher as income tax is more, meaning he could reinvest more profit to avoid tax. Overall his legal identity has a massive effect on the way he operates the business as it effects every aspect of how the business is managed and run. [7]

### Examiner commentary

This example chooses to refer to the choice of legal structure for WFC as the legal factor. The key part of the answer is the final six lines where the candidate correctly identifies that WFC will pay (the higher) income tax rather than corporation tax. Will will potentially be paying more tax, so there is less to reinvest in the business. Unfortunately, although this is quite a sophisticated

point, it has not been well expressed. What (it is implied) the candidate is trying to say is that if Will had chosen to be a limited company he would have had more profit after tax to reinvest in the business. If this had been made clear then the answer would have gained full marks.



## Question 17

During the writing of the business plan, Will 'had to consider a number of legal factors' (Line 23). Analyse **one** legal factor which might affect the operation of WFC.

[7]

### 2 out of 7 marks

One legal factor that might affect the operation of WFC is complying with health and safety legislation. This would impact the operation of WFC as it would mean Will would have to take extra measure in ensuring all aspects of the shop are safe for example: Hot ovens <sup>/fryers</sup> are not exposed to costumers, there are no slip hazards and many other potential hazards. This likely to have an initial negative cost to the business as he will have to <sup>pay</sup> ~~be~~ the cost of making the shop safe however in the long run it will a positive impact on operations as it minimises the chance of being sued, fined or prosecuted which would have a negative impact on WFC's operation. [7]

### Examiner commentary

The first sentence of this answer gains both marks awarded. There is knowledge (legal structure is a legal factor) and application (WFC is a sole trader). Unfortunately, the rest of the answer contains nothing to credit (confusion about working capital and then incorrect reference to limited liability). There is no suggestion about how the decision over the legal structure has an impact on the operation of WFC.

## Question 18

'... the years following the 2008 recession were difficult, although the Bank of England's decision to keep the UK interest rate very low certainly helped WFC' (Lines 24–26).

Evaluate how a fall in the UK interest rate could affect WFC.

[15]

### 14 out of 15 marks

For WFC a fall in interest rates will have many effects. Firstly the business was set up in 2007 partly funded by a bank loan. Due to the nature of bank loans there is a high chance that in 2008 and following years, WFC was still paying it off. A fall in interest rates therefore should ~~not~~ reduce the cost of the repayments and this helps reduce the businesses costs as in theory he will be paying less. However a fall in interest rates refers to the base rate a rate usually given to savers. The interest rate on loans tends to be higher than this and never falls as much so although there may be some reduction in repayments it is likely that the cuts won't be much due to the fact that as a borrower his interest rates with the bank are higher than a saver.

The next thing is that when interest rates fall consumers don't see the point in saving and instead spend their money due to the fact savings are giving very limited return. This therefore could be a good thing for WFC if more people are eating fish and chips rather than cooking. However most of the new extra spending from low interest rates tends



to go more on luxuries or large purchases where people may use a credit card as they are paying lower interest than they were before. For WFC this could be irrelevant as most their transactions are cash so there is a likely hold that spending on food and chips isn't likely to rise too much meaning his business won't grow.

Going back to loans Will has said he wants WFC to increase so acquiring a low percent interest loan ~~on~~ e.g. a mortgage may mean he could open another shop cheaper. Due to the previous uncertainty and need for growth following a recession loans are given at ~~slightly~~ slightly easier and at a low percent to encourage growth so WFC could acquire a mortgage for expansion of the business. However he states his current premises are working under capacity so doing this although potentially cheap due to low interest rates may not be suitable for the business.

Overall a fall in interest rate will affect WFC mainly on the borrowing side. If his interest rate on his loan is cut ~~to~~ by a bit his costs will fall and he may be able to cut prices of his meals which will increase his revenue up to a point as between  $\pounds 4.50$  &  $\pounds 5.50$  his consumers are price elastic so he could cut his average to  $\pounds 5.50$  and increase revenue due to lower costs. This might also help as he is likely not to benefit from increased spending by the consumer as he mainly

deals with cash and is selling a low end item. Finally expansion may become more possible and affordable. If loans are cheaper and easier to acquire so this could lead to an expansion for WFC and his business.

Really it depends on how far the interest rates are (especially for borrowing) as to how much effect it has on WFC as a business.

## Examiner commentary

Questions about economic factors can often cause problems with Business candidates, but this is an excellent answer about the impact on WFC of lower interest rates.

It first considers the effect on the cost of borrowing, with contextual reference to WFC's bank loans probably still being in existence. The answer later returns to this issue to consider whether lower interest rates may make it easier for WFC to expand and makes an excellent evaluative point about the need for expansion, given that we are told that WFC is operating under capacity. The answer also considers the impact on consumption, due to lower borrowing costs, but questions whether a business selling fish & chips will really be affected by this (another piece of good evaluation). Although we have so far seen some excellent evaluation in the answer, the analysis on this point could have been a little better.

There is, however, a very good piece of developed analysis later in the answer when the candidate uses the data in Table 1 to consider how a fall in price (due to lower interest costs) will lead to higher revenue, due to the price elasticity of demand. The answer then draws to a close with some effective evaluation, by saying that as WFC mainly deals in cash sales and is selling 'a lower end item', any fall in interest rates is less likely to benefit WFC. Not only does the candidate come to a clear conclusion it is based clearly on the preceding discussion.

## Question 18

'... the years following the 2008 recession were difficult, although the Bank of England's decision to keep the UK interest rate very low certainly helped WFC' (Lines 24–26).

Evaluate how a fall in the UK interest rate could affect WFC.

[15]

### 9 out of 15 marks

Interest rates in the UK are determined by the Bank of England and are reviewed and changed around every 18 months if necessary.

A fall in the UK interest rate could have a positive affect on WFC. This because it would mean the end amount payed on loans and mortgages may be lower if they were not fixed. It is likely the bank loans do not have a fixed rate of interest, however a mortgage may be fixed as it a long term loan, whereas a bank loan may not be. A fall<sup>in</sup> interest rates may mean monthly repayments could be cheaper. This would have a positive impact on WFC as it would mean costs could be less and it would be more achievable to break even, and easier to repay the loan.

Another way in which a fall in interest rates could have a positive impact on WFC is that it could encourage more customer spending if they have more confidence in the economy.

After the <sup>sump</sup> recovery period that follows a recession, it becomes the recovery period; this is when consumer spending increases. This would have a positive impact on WFC as it means more sale



revenue is likely to be generated, which in turn helps to cover costs. Moreover a fall in interest rates may mean customers are financially better off and are likely to have more disposable income. This would impact WFC in a positive way as many would agree with the agreement that fish and chip shops are a 'luxury' therefore would not want to eat out more if there was less disposable income, whereas they may now be financially better off.

Another way interest rates being lower are likely to effect WFC is it may now be easier to expand. This because a lower interest rate may encourage banks to lend more. This would be beneficial as it could be invested into capital like further machinery, which would enable WU to produce more. However this unlikely as WU is a sole trader and may not want to run the risk of overworking himself therefore may be happy with his current size of business.

In contrast it may have no effect on WFC if he does not plan to take anymore loans out and all of his loans are fixed in rate, as it would mean they are not financially better off and fixed costs would ultimately be the same.

The only way in which low interest rates is likely to have a negative impact on WFC is if that WU had decided he wanted to get another bank loan, whether it be to expand or replace machinery, and he had been declined. This may force WU to use personal savings as he previously had to start up. This

~~work to~~ low interest rates would mean he is not getting a higher return on savings which means it may take longer to save the money he requires. Interest is received on money saved as well as paid, which could mean interest speeds up saving time. This could negatively affect WFC especially if it is to replace broken machinery as it could mean he is not working at full capacity, which more result in a decline in sales.

In conclusion low interest rates are likely to have a positive affect on WFC as it could mean repayments are lower and it encourages consumer spending within the economy.

## Examiner commentary

Questions about economic factors can often cause problems with Business candidates, but this is an excellent answer about the impact on WFC of lower interest rates.

It first considers the effect on the cost of borrowing, with contextual reference to WFC's bank loans probably still being in existence. The answer later returns to this issue to consider whether lower interest rates may make it easier for WFC to expand and makes an excellent evaluative point about the need for expansion, given that we are told that WFC is operating under capacity. The answer also considers the impact on consumption, due to lower borrowing costs, but questions whether a business selling fish & chips will really be affected by this (another piece of good evaluation). Although we have so far seen some excellent evaluation in the answer, the analysis on this point could have been a little better.

There is, however, a very good piece of developed analysis later in the answer when the candidate uses the data in Table 1 to consider how a fall in price (due to lower interest costs) will lead to higher revenue, due to the price elasticity of demand. The answer then draws to a close with some effective evaluation, by saying that as WFC mainly deals in cash sales and is selling 'a lower end item', any fall in interest rates is less likely to benefit WFC. Not only does the candidate come to a clear conclusion it is based clearly on the preceding discussion.



## Question 19(a)

Assume that WFC's fixed costs are £4,000 per month and the average variable cost of a meal is £2.75. Calculate WFC's break-even level of sales per month.

[4]

4 out of 4 marks

$$\begin{aligned}\text{Average price} &= \text{£}6. \\ \text{Contribution} &= \text{£}6 - 2.75 = \text{£}3.25 \\ \text{Break even} &= \frac{4000}{3.25} = \frac{12800}{100} = 1280 \\ &= 1280.76 \uparrow 1281\end{aligned}$$

[4]

### Examiner commentary

This answer is well set out and get to the correct answer by rounding up (rounding down would give an incorrect answer of 1230 which would only score 3 marks).

## Question 19(a)

Assume that WFC's fixed costs are £4,000 per month and the average variable cost of a meal is £2.75. Calculate WFC's break-even level of sales per month.

[4]

### 2 out of 4 marks

~~£4,000~~ average price of a meal = £6  
 $£6 - £2.75 = £3.25$   
 $£4,000 \div £3.25 = 1230.8$   
The break even level of sales per month  
would be 1231 sales.

[4]

### Examiner commentary

This answer starts with the correct formula which is worth one mark. However, the calculation for unit contribution is wrong (the selling price is divided by the variable cost rather than the difference being calculated). The own figure rule (OFR) does allow a further mark to be awarded as the candidate has then divided the correct fixed cost figure by the now incorrect unit contribution figure.

A candidate cannot be penalised for making the same mistake more than once. The OFR takes account of this and so can be found in most quantitative mark scheme answers.

## Question 19(b)

Discuss the usefulness of break-even analysis as a decision-making tool for Will in running WFC.

[15]

10 out of 15 marks

Break-even analysis may be very useful as a tool for decision making. This is because it would help Will to identify any costs the business has, therefore it could help to identify if the decision is likely to be able to be payed off or if the risk is too high. This is also suitable when developing a pricing strategy for the products WFC has to offer as if he sets the price too low in comparison to the number of sales he gets then it may mean WFC is unable to break even, and a too high pricing strategy in order to break even may deter competition or customers, who may choose to go with competition.

Another way in which it is useful for decision making is it enables WFC to set targets. Therefore if <sup>it</sup> identifies it would need to generate a significant more amount of sales in order to break even then the decision may not be suitable.

Break-even analysis also means WFC could look at previous months. This would mean they could identify previous trends for the year and if the decision would happen in a month that business is good then it may be appropriate to make the particular decision.

However break even analysis does not account for any additional costs the business may face that may be a one off; like having to replace light bulbs. This is not useful as if the additional cost ~~repenter~~ does rise and WFC does not have any extra cash than the possibility of breaking ~~even~~ - even may be significantly reduced, which could see the business experiencing financial difficulties; something in which any business, particularly a small one does not want.

However there are other methods of making decisions that may be more useful; for example decision tree's. Decision tree's take into consideration the return on investment or decision may have, this would be useful to WFC as it enables the business to choose the decision which has the ~~the~~ highest expected return value. It also identifies the likelihood each particular decision is of failing or succeeding, which may be more useful as would also allow WFC to identify which decisions is more risky; which may be useful if it shows the reward is not worth it. However it may not be useful as the probabilities are only estimates therefore a not an accurate reflection of how the decision will turn out. Moreover, decision tree's do not take into consideration any additional costs and instead only offer a vague overview of the financial estimates of each decision.



Another tool WFC could use as a decision making tool is financial ratios calculation like return on capital employed; this would help to identify if each decision would generate a significant amount of capital, for example buying new machines. This however may be difficult for a sole trader to do and may require a more specialist person to calculate the return on capital employed which would not be useful as it would bare an additional cost.

In conclusion a break-even analysis is a useful tool in decision making, especially for a sole trader. This is due to it's simplistic nature which would mean it would not require specialist help to do so. It also gives a realistic measure of how much sales WFC would need to generate to bare the cost of the decision.

## Examiner commentary

This example is one of the better answers seen to this question and there is an attempt to both include context and analyse each point. For example, the second paragraph, which is actually only one sentence, contains knowledge (it is a simple method), context (a small business) and analysis (it allows the business to see if it is selling enough to cover costs).

The fourth paragraph contains some even better material. There is a recognition that a fish and chip shop will not sell all of its products at the same price (knowledge and context), this makes it very difficult to calculate a "precise average" both for the price and variable costs (developed analysis) so that "...it may not be a true representation of the real break even point" (evaluation).

The rest of this answer does not answer the question. The next paragraph does recognise that, from the answer to the previous question, WFC has a good margin of safety but this is not really of any relevance to the question about the usefulness of break-even and then the final two paragraphs are just a repetition of what the candidate has said earlier in the answer.

A question of this nature, which is asking about the usefulness of a particular technique or theory, would benefit from two separate pieces of developed analysis (preferably from opposing viewpoints) which can then be weighed up for this particular business. In this case, the point about the difficulties of WFC selling products for lots of different prices could be compared with the benefits of having lots of years of data to use as a historical base. A justified judgment can then be made to show how one or the other argument is more significant for WFC (the actual decision does not matter). For example, given that WFC has been in business and has been successful for 10 years may suggest that the advantages outweigh the disadvantages **in this case**, although as time passes maybe break-even will become less useful.



## Question 19(b)

Discuss the usefulness of break-even analysis as a decision-making tool for Will in running WFC.

[15]

5 out of 15 marks

Break even is a good way at forecasting how many units of output you need to produce to cover fixed costs (FC/contribution per unit). This allows you very quickly to see if enough is being sold for WFC that's portions of food.

As a small business it is a useful method due to the simplicity of working it out and therefore for someone like Will it could be seen as the tool that allows them to see if they are selling enough to cover costs of running.

From Break even he can also compare his break even output to actual output and work out his margin of safety (how many units above break even he is) and again this is a simple calculation which is good for a small business who may not have a finance manager/expert.

Break even though has some disadvantages mainly that it works on an average meaning everything is sold for the same amount and costs the same to produce. As a fish and chip shop Will is likely to have many different products that he is selling

All for different prices giving him a rough average of £6 but as things cost different prices e.g. food and chips £6.50, clay and chips £5.75 it is hard to get a precise average as he can't predict how many of each dish he will sell.

Similarly the variable costs are only an average (£2.75) meaning again this opens up a potential area where error can be made and figures could be skewed so it may not be a true representation of the real break even point.

Finally without doing a margin of safety calculation or as mentioned break even doesn't cover any units produced above that point. WFC has a break even point of 1231 units a month but on average produces 3100 this shows that they are producing at a significantly higher point than their break even so the findings are that unlikely as he isn't on the cusp or producing at a level around that point. In fact he is producing 151.83% more so it is unlikely that his production/sales would fall below break even again meaning for WFC as a decision making tool it may not be all that useful.

Overall the main advantage of break even is the simplicity of working it out and as a small business with no finance manager it may be useful due to simplicity and fact that you

Can then work out margin of safety. However due to the fact WFC will in all likelihood be selling numerous different products at various different prices it makes a break even calculation hard as it ~~may~~ requires there to be just one selling price and one variable cost - again in a fish and chip shop this is hard due to number of items bought and the fact that his business costs can change rapidly due to national demand of fish and vegetables. As his inputs are supply inelastic and can change price rapidly and are different for each product working out on average is going to be tricky. Finally WFC ~~are~~ are

working well above their break even point the calculation isn't a good decision making tool as his production is far exceeding and break even won't help him perform better to keep production growing.

In conclusion although simple and sometimes effective for WFC break even is ~~an~~ an almost useless tool in decision making due to cost and price fluctuations, the fact there is more than 1 product and the fact the production is already so much higher than the break even point.

## Examiner commentary

There is a very generic start to the answer with the first page just containing knowledge about what break-even may be used for. There is some weak contextual support when the candidate refers to "...particularly a small [business]..." and "...especially for a sole trader." However, there is no analysis of any points, partly due to the context being ignored. For example, take the third paragraph which refers to using previous monthly figures. This may be an avenue into analysis but there is no attempt to use context. WFC has been in business for ten years so there

is plenty of previous data for Will to consider. Reference to this would have been rewarded with analysis (AO3) marks and may have led to evaluation by suggesting that this much data may have allowed Will to make more accurate forecasts about the margin of safety, month by month, to allow for seasonal variations. Alternatively, given that WFC's business relies on people physically going to the shop, break-even levels may not be achieved due to external factors such as the weather.



## Question 20(a)

Calculate the percentage increase in sales per month which Will would need to achieve in order to reach his objective of the shop operating at full capacity by 2020.

[3]

3 out of 3 marks

$$\begin{array}{l} \text{currently } 3100 \text{ capacity } 5000 \\ \frac{(5000 - 3100)}{3100} \times 100 = 61.29\% \end{array}$$

### Examiner commentary

This answer is correct. The working is clear and gets to the expected answer very quickly.

## Question 20(a)

Calculate the percentage increase in sales per month which Will would need to achieve in order to reach his objective of the shop operating at full capacity by 2020.

[3]

0 out of 3 marks

$$\begin{array}{l} \frac{3100}{3700} = 83.8\% \\ \times 100 \\ \text{There would have to be an } 83.8\% \text{ increase} \\ 83.8 \div 12 = 6.9\% \\ \text{There would have to be a } 6.9\% \text{ increase in sales per} \\ \text{month} \end{array}$$

[3]

### Examiner commentary

There is nothing in this answer which can be rewarded. The figure of 3700 seems to have been randomly taken from Table 1 and then there is no obvious reason to divide the current sales by this number and then to divide this number by 12.

## Question 20(b)

Using quantitative and qualitative evidence, evaluate a strategy for Will to reach his objective of increasing sales so that the shop's capacity can be fully utilised by 2020.

[15]

14 out of 15 marks

Will wants to increase WFC's capacity utilisation so that they are producing 5000 meals a month rather than 3100 an increase of 61.29% which is quite ~~not~~ a large change.

At the moment his average meal is £6 and selling 3100 of these generates £18600. A potential way to increase capacity utilisation straight away is to lower average price to £5.50 this generates an extra 400 units of output and increases revenue to £19250. This works as the consumer at that point is price inelastic so a smaller price reduction of 8.3% generates a 12.3% increase in demand showing PED of 1.48 meaning it's elastic between those prices. He could take it further and reduce to ~~£5.00~~ 5 and sell 3700 for £18500 although by this point he is losing revenue due to inelastic demand and therefore although this solves his capacity utilisation problem it will lose revenue so probably won't be a long-term way of increasing utilisation.



Another method he could use is advertising which is a qualitative measure. As his business USP is the way they are prepared and presented this would need to come across in his advert. An advert for the business should follow AIDA - by first creating awareness of the brand followed by interest then desire and finally action (people coming and buying). From the case study Will has acquired 2 methods the local newspaper (MK Citizen) has 2 options out of the 2 the double column is much better value and is only £23.24 more expensive than a single column over 6 weeks (£133.44 for a double, £111.20 for a single). Therefore from these two options a double is much more appropriate and much cheaper comparatively for space. The radio advertising through MKFM is the opposite though to be played 4 times a day costs £166.25 ~~times~~ a month whereas for 3 times a day it is £150.15 per month. Therefore the 4 times a day is better value however the disadvantage is that you have to pay in one sum of £199.50 for the year a cost will may not have the money for as a small business.

~~The case study says~~ Pending though it appears that at the moment there are no formal advertising campaigns for WFC. So any form of advertising should increase demand and capacity utilisation. The case study though says most buyers are within 2 miles of the product doesn't travel well so MKFM that is broad cast ~~across~~ across 4 counties may not be an effective method.

as although there could be "2 million voters most will probably live far away. Therefore the MK Otzer may be better as it is a smaller audience plus if they have written reviews/articles on WPC he can put links on his website to them as well as the adverts and his adverts online could link to his website generating awareness and interest in the hope to create desire and action. It therefore would ~~appear~~ appear that the local paper approach may be more suitable for WPC compared to radio.

Overall on a quantitative measure WPC could reduce average price from £6 → £5.50 moving demand from 3100 a month to 3500 and generating extra revenue due to the elastic demand of the consumers. Secondly on a qualitative measure he could advertise with the newspaper being a better (and cheaper) option due to the fact it is more targeted in Milton Keynes ~~compared to~~ rather than the surrounding ~~area~~ counties. This will increase demand and therefore and capacity utilisation however without knowing the Advertising elasticity of demand it is hard to say how much demand will rise by. Though careful price changes and more focus on advertising will should improve his capacity utilisation from its current 3100 a month to full 5000 a month ~~(or at least get closer to full capacity)~~ so his capital is more efficient and better used.

## Examiner commentary

This example is more strategic and makes excellent use of the context available. As with the previous example, the issue of price is considered. However, this candidate uses Table 1 to produce a thorough analysis of reducing price by recognising that a fall in price to £5.50 would help both capacity utilisation and total revenue (ignoring where the candidate writes inelastic when they mean elastic, as all of the calculations are correct). A further fall in price to £5 may improve sales but at the cost of falling revenue. This is both developed analysis and good evaluation.

Advertising is then considered (as a qualitative issue) and, although the level of analysis is not so good, the data in Tables

3 & 4 are used and an evaluative comment is made (will a small business have enough money?) Eventually, a justified decision is made with regards to advertising that the local newspaper might be a better option for WFC.

The final paragraph does approach the issue strategically by considering the impact of the price change and advertising together. There is also a recognition that more specific information is needed (the advertising elasticity of demand) before a final decision can be made. Ultimately, this paragraph produces effective evaluation by making a justified judgment based on the preceding analysis and so gains all of the AO4 marks available.



## Question 20(b)

Using quantitative and qualitative evidence, evaluate a strategy for Will to reach his objective of increasing sales so that the shop's capacity can be fully utilised by 2020.

[15]

8 out of 15 marks

Given that Will is currently selling on average 3,000 meals a month, he will need to make another 1,900 a month in order to operate at full capacity; of 5000 meals. Will will need to increase sales to reach his goal. To increase sales; Will could use pricing strategies such as psychological pricing to generate more sales. This may cause customers to think they are getting a good deal. If Will's main objective was to work at full capacity, he may consider lowering his prices in an attempt to increase sales. This may encourage first-time buyers and repeat customers. It may be an issue in terms of needing money to pay for electricity and gas to cook the meals so if Will took this approach he would need to make sure he doesn't lower the price too much, as he will have higher costs.

NiMi may also consider introducing loyalty cards in an attempt to encourage repeat purchases. If the loyalty cards expired after 6 months it may encourage repeat buying on a more frequent basis which could contribute towards the ideal 8000 meals a month. This may not be an effective method as Posh and Chris from NFC could be an occasional treat and potentially not all customers would live locally. Customers could be builders only around for a few weeks or may change lifestyle choices; become vegan. This method could increase sales but is not definite. Also people could lose the loyalty card and forget about it.

NiMi could increase his prices at the end of the month when people have been paid, this may be unethical yet it could increase sales revenue. The additional sales revenue could be used to develop new product to get more people.



## Examiner commentary

Only two issues are considered (which is typically enough in a question of this size). The first issue concerning pricing strategies is not developed enough to gain any analysis marks. How may a psychological pricing strategy affect sales? The second suggestion about a loyalty card is dealt with much better. It does set out how it would work and there is some good evaluation as the candidate questions whether, given that many of WFC's customers may not live locally and so will not visit regularly (e.g. builders and other trades people), the idea would be successful.

There is some context, analysis and evaluation however this answer makes no attempt to develop a strategy, as stated in the question. There are just a series of unrelated points.



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