

**Cambridge Technicals
Business**

Unit 3: Business decisions

Level 3 Cambridge Technical in Business
05834 - 05837

Mark Scheme for June 2018

OCR (Oxford Cambridge and RSA) is a leading UK awarding body, providing a wide range of qualifications to meet the needs of candidates of all ages and abilities. OCR qualifications include AS/A Levels, Diplomas, GCSEs, Cambridge Nationals, Cambridge Technicals, Functional Skills, Key Skills, Entry Level qualifications, NVQs and vocational qualifications in areas such as IT, business, languages, teaching/training, administration and secretarial skills.

It is also responsible for developing new specifications to meet national requirements and the needs of students and teachers. OCR is a not-for-profit organisation; any surplus made is invested back into the establishment to help towards the development of qualifications and support, which keep pace with the changing needs of today's society.

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 2018

Annotations

Annotation	Meaning
Tick	Valid point, mark awarded. The number of marks awarded must match the number of ticks.
Cross	Incorrect
Question mark	Response unclear
BOD	Benefit of doubt (mark awarded) – use alongside a tick.
TV	Too vague (mark not awarded)
REP	Repetition (no additional marks awarded)
NAQ	Not answered question (incorrect focus)
L1	Level 1 response (identification) – For use on Questions 5 and 7
L2	Level 2 response (explanation) – For use on Questions 5 and 7
L3	Level 3 response (analysis) – For use on Questions 5 and 7
L4	Level 4 response (evaluation) – For use on Questions 5 and 7
CONT	Context – For use on Questions 5 and 7 (required for high L4 award only)

Subject-specific marking instructions

For Level of Response marked questions marked over 4 levels, the candidate can access at L1 or L2. In either case, they can analyse the point made and proceed directly to L3.

L3 analysis is required before L4 can be accessed.

Question		Answer	Marks	Guidance
1	a	<p>Responses include:</p> <ul style="list-style-type: none"> • social factors • technological factors • economic factors • environmental factors • political factors • legal factors • competition/market factors • actions of stakeholders 	2	<p>This question assesses synoptic knowledge from Unit 1 LO6: Understand the external influences and constraints on businesses and how businesses could respond.</p> <p>1 mark for each of two valid external influences.</p> <p>Accept any valid and plausible external influence.</p> <p>Accept two examples from the same category.</p>
1	b	<p>Responses include:</p> <p>Financial risk Impact on PACM, e.g.:</p> <ul style="list-style-type: none"> • loss of revenue • rise in costs • increase in debtors/bad debts • worsening cash flow • may not be able to finance the expansion • may not be able to repay loans • may not be able to pay employees/creditors • threat of bankruptcy <p>Effect on reputation of the business Impact on PACM, e.g.:</p> <ul style="list-style-type: none"> • loss of customers • withdrawal of offers of finance • harder to recruit staff • lower revenue/profits • may not be able to finance the expansion 	4	<p>For each risk factor: 1 mark for an impact. 1 mark for the consequences of this impact.</p> <p>NB: Question asks for an explanation, so for 2 marks in each case the second point must be a development of the first (e.g. no second mark for two unrelated examples).</p>

Question		Answer	Marks	Guidance
1	c	<p>Responses include:</p> <p>Internal stakeholder:</p> <ul style="list-style-type: none"> • employees • managers • directors <p>Allow an example e.g. Patricia, Carlos, sales staff, cooks, delivery drivers)</p> <p>Possible impacts:</p> <ul style="list-style-type: none"> • move to new premises • change in job role • redundancy • promotion • wage/salary increase/decrease <p>Example response A cook (1) might have to move to a new place of work (1). A manager (1) may receive a pay cut (1).</p>	2	<p>This question assesses synoptic knowledge from Unit 1 LO5: Understand the relationship between businesses and stakeholders.</p> <p>1 mark for a valid internal stakeholder and one mark for stating how they might be affected by a decision made by PACM.</p>
2	a	<p>Indicative content:</p> $(180/5)/200*100=18$ <p>Award 2 marks for the correct answer: 18</p> <p>Award 1 mark for a place error (e.g. 0.18, 180)</p>	2	<p>Up to two marks:</p> <p>Award full (2) marks for 18.</p> <p>The % is shown in the response space so responses do not need to include the % in their own answer.</p>

Question		Answer	Marks	Guidance
2	b	<p>Responses include:</p> <p>Benefits of using ARR</p> <ul style="list-style-type: none"> • gives a <u>percentage</u> which can be <u>compared</u> (1) • e.g with a target rate of return (1) • e.g. with other investment projects (1) <p>Drawbacks of using ARR</p> <ul style="list-style-type: none"> • ignores when in the life of the project it starts to earn a return • ignores the impact of inflation <p>Example response. ARR gives a percentage rate of return which can be compared (1) with the amount of interest they could earn if the money were invested in a bank (1)</p> <p>Takes into account profits over the lifetime of the project (1) unlike payback which only measures short-term time to break-even (1).</p> <p>It doesn't take into account the time value of money (1) so during high inflation it will overstate the rate of profit(1).</p>	4	<p>1 mark for a valid benefit plus one mark for an explanation.</p> <p>1 mark for a valid drawback plus one mark for an explanation.</p> <p>Do not accept generic benefits/drawbacks of investment appraisal. Marks must be for specific benefits/drawbacks of the ARR method.</p>

Question		Answer	Marks	Guidance
3	a	<p>Responses include:</p> <ul style="list-style-type: none"> • PACM generally has a higher absenteeism rate than the bakery industry average • But there are exceptions (e.g. 2013 and 2016) – <i>one exception is sufficient to trigger this mark.</i> • The bakery industry has less variability year-on-year • PACM’s absenteeism rate is on a rising overall trend whereas the industry average is stable. • PACM’s average for the period is 5.47% which is higher than the industry average over the period (4.33%). <p>Example responses:</p> <p>PACM’s average is higher over the period (1) because its average is over 5% (1) and the industry average is closer to 4% (1).</p> <p>PACM’s trend is getting worse but the industry average is constant (1) and at the end PACM’s average is higher (1).</p> <p>PACM’s rate is generally higher (1) even though it is lower in 2013 (1). And it fluctuates more than the industry average (1).</p> <p>PACM has fluctuated between 2.5% and 8.5% but the industry average has fluctuated between 4% and 4.7% - no marks, this is descriptive of each with no comparison between them.</p>	3	<p>1 mark for each comparative statement.</p> <p>For each comparative statement: Up to 2 marks for supporting evidence from Fig. 1.</p> <p>“In 2012 PACM’s absence rate was 4.4% and the industry average was 4.2%. In 2015 it was 7.5% and the industry average was 4.7%” – no marks as this is pure description.</p> <p>“In 2012 PACM’s absence rate was 4.4% but the industry average was only 4.2%. In 2015 it was 7.5% but the industry average was lower at 4.7%” – this time there is a comparison and supporting information from the table has been used twice. Full marks can be awarded.</p>

Question		Answer	Marks	Guidance
3	b	<p>Possible answers:</p> <ul style="list-style-type: none"> sanctions for excessive absenteeism rewards for low absenteeism motivation strategies <p>Example responses:</p> <p><i>PACM</i> could introduce sanctions for excessive absenteeism (1). For example, if a baker was absent on more than four occasions in a 90 day period they could receive a verbal warning (1). This should encourage workers to take fewer days off (1).</p> <p><i>PACM</i> could give rewards for 100% attendance (1). This would encourage workers to come to work every day (1).</p> <p>They could try to motivate their workers more. This would make them want to go to work more often (0 – Too vague).</p>	3	<p>This question assesses synoptic knowledge from Unit 1 LO2: Understand how the functional areas of businesses work together to support the activities of businesses</p> <p>One mark for a valid method plus up to two marks for an explanation.</p> <p>Award 1 mark for a valid method. 1 mark for explaining the method (allow examples of how the method would work). 1 mark for explaining how this will help to reduce absenteeism.</p>

Question	Answer	Marks	Guidance
4	<p>Possible answers include:</p> <p>The threat of new entrants</p> <ul style="list-style-type: none"> • new entrants will reduce the market share of existing firms • new entrants may charge lower prices • new entrants may offer better quality products • fewer new entrants will result in less competition for <i>PACM</i> <p>Example response: New entrants would result in lower profits (1) because <i>PACM</i> will respond by cutting its prices (1) which will lower its revenue from each cake sold (1).</p> <p>Possible answers include:</p> <p>The bargaining power of suppliers</p> <ul style="list-style-type: none"> • suppliers who have fewer competitors can charge higher prices • suppliers who have more competitors may have to charge lower prices <p>Example response: <i>PACM</i> may be forced to spend more money on its supplies (1) which increases its costs (1) which reduces its profits (1).</p>	6	<p>Up to three marks for each of two explanations.</p> <p>In each case, award:</p> <p>Award: 1 mark for how the force will affect <i>PACM</i> (e.g. new firms may charge lower prices, new firms may take customers away from them)</p> <p>1 mark for explanation of the impact on revenue or costs (e.g. how/why revenue may fall or costs rise).</p> <p>1 mark for the resulting impact on profits (e.g. <i>PACM</i>'s profits will fall).</p> <p>No mark for stating an impact on profits without explanation.</p>

Question	Answer	Marks	Guidance
5	<p>Use level of response criteria</p> <p>Responses include:</p> <p>Benefits include</p> <ul style="list-style-type: none"> • can identify strengths and weaknesses of the project • can be compared with similar audits for the other options (if completed) • more aware of factors influencing the success of the project • more aware of business risk • able to take appropriate remedial actions • more information results in better decision-making <p>Drawbacks include:</p> <ul style="list-style-type: none"> • time taken to complete the audit • cost of completing the audit • difficult to predict future with accuracy • audit may be incomplete • may create too much information making it harder to make a decision • ignores internal factors <p>Factors influencing whether it should be a priority: Impact on the decision-making process e.g. speed, accuracy, cost</p> <p>Example response</p> <p>By carrying out the audit the business can identify potential risk factors (L1) and then decide whether any action should be taken to minimise them (L2). A drawback of carrying out such an audit is that it</p>	12	<p>Levels of response:</p> <p>Level 4 (10 - 12 marks) Candidate prioritises the use of an external business environmental audit to help Carlos decide whether to proceed with Option 2.</p> <p>Level 3 (7 - 9 marks) Candidate analyses the use of an external business environmental audit to help Carlos decide whether to proceed with Option 2.</p> <p>Level 2 (4 - 6 marks) Candidate explains benefits and drawbacks to a business of using an external business environmental audit.</p> <p>Level 1 (1-3 marks) Candidate identifies benefits and drawbacks to a business of using an external business environmental audit.</p> <p>L4 evaluation – Award 10 marks for a non-contextual judgement. Award 11 marks for a contextual judgement. Award 12 marks for a detailed and specific contextual judgement.</p> <p>L3: Analysis of previous point.</p> <p>L2: Any explanation of benefits/drawbacks.</p> <p>L1: Look for benefits and drawbacks.</p>

Question		Answer	Marks	Guidance
		<p>will take time and prevent Carlos from doing other management activities (L1) that could be a more productive use of his time (L2) and this could increase business costs more than is necessary resulting in a short-term fall in profitability (L3). However, by carrying out the audit the business can reduce the risk of external factors harming the business because it can take remedial action that could reduce costs in the long run (L3). For these reasons, I believe that Carlos should make an external environmental business audit a high priority but should make sure that it does not impact too much on the day-to-day management of the business whilst it is being produced (L4).</p>		
6	a	<p>Responses include:</p> <ul style="list-style-type: none"> • staff may be happy in their present job • may have a fear of the unknown • may not wish to change job role • may not wish to acquire new skills • lack of involvement in the decision to change • lack of understanding of the need for change • employees prioritise job security above the financial health of the business <p>Example response: An employee may be worried that they won't be able to do the new job (1). For example, a sales assistant may lack confidence to wait at tables (1).</p> <p>They may have a fear of the unknown (1) so they do not want to change to a new job role (1) because they don't want to learn new skills (1)</p>	3	1 mark for a valid reason plus up to two marks for an explanation.

Question		Answer	Marks	Guidance
6	b	<p>Actions include:</p> <ul style="list-style-type: none"> • Provide training • Consult with staff about decisions to be made • Explain decisions to staff • Financial rewards for agreeing to the decisions. <p>Example responses:</p> <p><i>PACM</i> could consult with its staff about the decisions it needs to take (1). For example, it could let sales staff choose a new uniform to wear when waiting at tables (1). This will help make them feel they have more control over the changes.(1).</p> <p><i>PACM</i> could give staff who agree to a change in job role a bonus (1) as this will encourage them to say yes to the proposal (1) because the reward might outweigh any drawbacks (1).</p>	3	1 mark for a valid action plus up to two marks for an explanation.

Question	Answer				Marks	Guidance																																				
7	<p>Use level of response criteria</p> <table border="1" data-bbox="353 296 1167 1190"> <thead> <tr> <th></th> <th>Option 1 Open a second shop</th> <th>Option 2 Dedicated production facility</th> <th>Option 3 Convert part of the existing shop into a café</th> </tr> </thead> <tbody> <tr> <td>Capital cost</td> <td>£40,000</td> <td>£200,000</td> <td>£10,000</td> </tr> <tr> <td>Impact on profit</td> <td>Increased due to customers in new location</td> <td>Increased due to greater production of wedding/ speciality cakes</td> <td>Increased due to provision of new service</td> </tr> <tr> <td>Payback</td> <td>4 years</td> <td>7 years</td> <td>3 years</td> </tr> <tr> <td>ARR</td> <td>12.5%</td> <td>18% (allow OFR on learner's answer to 2a)</td> <td>3%</td> </tr> <tr> <td>Finance</td> <td>Bank loan variable rate: 4% above base rate.</td> <td>Fixed rate loan 5%, 10 Year</td> <td>Variable rate loan of 4.5%.</td> </tr> <tr> <td>Extra revenue?</td> <td>May double.</td> <td>From all products</td> <td>From café sales.</td> </tr> <tr> <td>Ansoff</td> <td>Market Development</td> <td>Market Penetration</td> <td>Diversification</td> </tr> <tr> <td>External influences</td> <td>Impact of higher interest rates?</td> <td>Changes in market trends eg wedding cake sales</td> <td>Changes in market trends eg café culture</td> </tr> </tbody> </table>					Option 1 Open a second shop	Option 2 Dedicated production facility	Option 3 Convert part of the existing shop into a café	Capital cost	£40,000	£200,000	£10,000	Impact on profit	Increased due to customers in new location	Increased due to greater production of wedding/ speciality cakes	Increased due to provision of new service	Payback	4 years	7 years	3 years	ARR	12.5%	18% (allow OFR on learner's answer to 2a)	3%	Finance	Bank loan variable rate: 4% above base rate.	Fixed rate loan 5%, 10 Year	Variable rate loan of 4.5%.	Extra revenue?	May double.	From all products	From café sales.	Ansoff	Market Development	Market Penetration	Diversification	External influences	Impact of higher interest rates?	Changes in market trends eg wedding cake sales	Changes in market trends eg café culture	16	<p>This question assesses synoptic knowledge from Unit 1 LO8: Assess business performance.</p> <p>NB: 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>Levels of response</p> <p>Level 4 (13 - 16 marks) Candidate recommends and justifies which option <i>PACM</i> should take, based on analysis.</p> <p>Level 3 (9 - 12 marks) Candidate analyses one or more options under consideration at <i>PACM</i>.</p> <p>Level 2 (5 – 8 marks) Candidate explains issues relating to one or more options under consideration at <i>PACM</i>.</p> <p>Level 1 (1 – 4 marks) Candidate identifies issues relating to decision making.</p> <p>L4 evaluation – Award 13 marks for suggesting the most beneficial option for <i>PACM</i> 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>
	Option 1 Open a second shop	Option 2 Dedicated production facility	Option 3 Convert part of the existing shop into a café																																							
Capital cost	£40,000	£200,000	£10,000																																							
Impact on profit	Increased due to customers in new location	Increased due to greater production of wedding/ speciality cakes	Increased due to provision of new service																																							
Payback	4 years	7 years	3 years																																							
ARR	12.5%	18% (allow OFR on learner's answer to 2a)	3%																																							
Finance	Bank loan variable rate: 4% above base rate.	Fixed rate loan 5%, 10 Year	Variable rate loan of 4.5%.																																							
Extra revenue?	May double.	From all products	From café sales.																																							
Ansoff	Market Development	Market Penetration	Diversification																																							
External influences	Impact of higher interest rates?	Changes in market trends eg wedding cake sales	Changes in market trends eg café culture																																							

Question	Answer	Marks	Guidance
	<p>Example response</p> <p>e.g. from a financial data and general business perspective Of the three options, option 3 has the lowest initial cost (L1) but also the lowest return (L1). There are risk factors which include some staff may not be keen on changing their job roles (L1) and so may resign (L2). Option 1 is less expensive than option 2 (L1). A variable-rate loan introduces uncertainty (L1) so if interest rates rise in the future then the cost of paying back the loan will increase (L2) and profits will be lower as a result (L3). Option 2 is the most expensive option (L1) but has potentially the largest increase in profits (L1). A drawback is that the payback period is the longest (L1) meaning that there is more time for changes in the external environment to have a negative impact on the profitability of the project (L2). For example, a reduction in demand for wedding cakes or an increase in competitors online could reduce revenue causing the actual payback period to be greater (L3). Overall Option 1 seems to offer the best balance between risk and reward because it involves reproducing the existing business model in another town (L4).</p>		<p>L3: Analysis of previous point.</p> <p>L2: Any explanation of a point.</p> <p>L1: Look for valid points.</p> <p><i>Note: Option 1 has an interest rate of 4% above base rate. Therefore, do not accept a statement that Option 1 has a lower interest rate than Option 3.</i></p> <p>Do not accept statements that an option/action involves 'risk' unless the type of risk is identified and/or discussed e.g. financial risk, marketing risk (e.g. using reference to Ansoff), human resource risk (e.g. that some staff may resign over the changes).</p>

OCR (Oxford Cambridge and RSA Examinations)
The Triangle Building
Shaftesbury Road
Cambridge
CB2 8EA

OCR Customer Contact Centre

Education and Learning

Telephone: 01223 553998

Facsimile: 01223 552627

Email: general.qualifications@ocr.org.uk

www.ocr.org.uk

For staff training purposes and as part of our quality assurance programme your call may be recorded or monitored

Oxford Cambridge and RSA Examinations
is a Company Limited by Guarantee
Registered in England
Registered Office; The Triangle Building, Shaftesbury Road, Cambridge, CB2 8EA
Registered Company Number: 3484466
OCR is an exempt Charity

OCR (Oxford Cambridge and RSA Examinations)
Head office
Telephone: 01223 552552
Facsimile: 01223 552553

© OCR 2018

