

## **CAMBRIDGE TECHNICALS LEVEL 3 (2016)**

*Examiners' report*

# ***BUSINESS***



**05834–05837, 05878**

## **Unit 3 January 2020 series**

Version 1

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## Introduction

Our examiners' reports are produced to offer constructive feedback on candidates' performance in the examinations. They provide useful guidance for future candidates. The reports will include a general commentary on candidates' performance, identify technical aspects examined in the questions and highlight good performance and where performance could be improved. The reports will also explain aspects which caused difficulty and why the difficulties arose, whether through a lack of knowledge, poor examination technique, or any other identifiable and explainable reason.

Where overall performance on a question/question part was considered good, with no particular areas to highlight, these questions have not been included in the report. A full copy of the question paper can be downloaded from OCR.

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### **ExamBuilder**

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Keep an eye out for updates on our post series feedback on Exams for Cambridge Technicals Webinars available in the autumn term.

## Paper Unit 3 series overview

This unit is a mandatory paper for the Foundation Diploma, Diploma and Extended Diploma. It may also be taken by students entered for the Certificate and Extended Certificate.

Candidates who did well in this unit demonstrated the following strengths:

- good knowledge and understanding across the whole unit content
- an ability to analyse the business impact of decisions and the factors influencing business decisions
- an ability to perform accurate calculations and summarise numerical information
- the ability to apply relevant content from Unit 1

It was pleasing to see candidates with a good understanding of the case study and an ability to apply it appropriately when answering questions. Compared with recent sessions candidates more generally gained marks from across the whole paper (with the exception of Questions 4 and 6 where many candidates did not achieve good marks).

Candidates generally performed better when they discussed the implications of the issues outlined in the case study rather than introducing new scenarios and contexts. For example some candidates discussed what options the business might pursue later if Option 2 were chosen and proved to be a success – this falls outside the scope of the paper which is to consider the implications for business decision-making of the issues identified in the case study.

Two questions on this paper are high tariff extended-response questions worth 12 and 16 marks respectively. Candidates need to demonstrate the skills of analysis (Level 3) and evaluation (Level 4) to gain the highest marks. An analytical response must contain implications for the business, for example for Question 7 the impact on sales, costs, profits, cash flow, customer loyalty, reputation, future performance. For Question 5, responses should consider the impact on the decision-making process itself. In addition to analysis an evaluative response must contain a reasoned judgement. Candidates should be encouraged to reach decisions and give detailed justification to support their argument using contextual information. While an accurate judgement that applies to most businesses would achieve a low Level 4 mark, an answer which argues using the particular circumstances of the business in the pre-release scenario will be rewarded more highly.

A number of candidates gave similar responses to both Questions 5 and 7. The focus of the two questions is however very different. Question 5's focus is the decision-making-process, i.e. issues that will affect the extent to which the decision-making process itself will be effective. Question 7's focus is the decision itself, i.e. which of the three options would be best for the business.

### Question 1 (a)

1 (a) Using **Appendix A**, explain **two** ways that the Christmas retail market has changed.

1.....  
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2.....  
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[4]

Most responses gained 2 marks for identifying that Appendix B gave two reasons for the changes in the Christmas retail market: the impact of Black Friday and the increase in online shopping. Relatively few gained extra marks for explaining how the Christmas retail market might be affected by these factors (for example Black Friday might require shops to ensure that Christmas-related stock is in place by November or the rise in online shopping might reduce the number of visitors to high-street shops).

### Question 1 (b)

(b) Identify **two** things about Henry that could affect the quality of his decision-making.

1.....  
.....

2.....  
.....

[2]

The pre-release identified several things about Henry that might affect his decision-making ability. Most responses correctly identified that he likes to take risks or that he is employed as an investment analyst. Some responses did not gain full marks because they identified decisions that Henry had taken, for example his choice not to undertake market research – rather than things about Henry that could explain why he made this decision.

### Question 1 (c) (i)

- (c) (i) Every business decision has an opportunity cost.  
State what is meant by the term 'opportunity cost'.

.....  
.....  
.....  
.....[1]

Many responses gained a mark for a basic understanding that opportunity cost is a potential benefit foregone by choosing the best available option; however a significant minority demonstrated no understanding. Candidates should expect to be asked to define concepts that are listed in the specification.

### Question 1 (c) (ii)

- (ii) Identify **one** opportunity cost to *Yuletide Joy* of choosing **Option 1 – Diversify the product range**.

.....  
.....[1]

A significant minority gained no marks for this question, demonstrating a lack of understanding of an important concept in business decision-making.

## Question 2 (a)

- 2 The cash-flow statement below shows actual cash flow for *Yuletide Joy* from August to December 2019.

	August	September	October	November	December
	£	£	£	£	£
Cash inflows	3500	3200	4250	13 500	
Cash outflows	5600	6200	6350	7200	8500
Net cash flow		-3000	-2100	6300	15 100
Opening balance	6500	4400	1400	-700	5600
Closing balance	4400	1400	-700	5600	20 700

- (a) Calculate the net cash flow for August. Write your answer in the box below. Do **not** write on the cash-flow statement.

Show your workings

Net cash flow for August: £

[2]

Most responses gained both marks. A minority used a correct method but their final answer omitted the minus sign (or did not show the answer in brackets). Only a very few did not know how to calculate net cash flow.

### Question 2 (b)

- (b) Calculate the cash inflows for December. Write your answer in the box below. Do not write on the cash-flow statement.

Show your workings

Cash inflows for December: £

[2]

Most responses gained both marks but a significant minority did not know how to calculate the cash inflow using the information provided.

### Question 2 (c)

- (c) Henry would like the business to reduce the amount of stock it holds from January to May.

Explain the impact that reduced stock levels would have on *Yuletide Joy's* net cash flow during this period.

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.....[2]

Only a small minority gained both marks for identifying that net cash flow would increase due to fewer cash outflows. Common reasons for failing to gain marks included: a lack of focus on cash flow (e.g. discussing the impact on costs and profit); a discussion of possible indirect/secondary effects of holding less stock (e.g. the lack of opportunity to sell stock with the resulting impact on revenue and profits).



### Question 3 (a)

3 If **Option 2 – Open a second shop** is chosen, new sales assistants will need to be employed.

(a) Explain how a skills audit could help when recruiting new sales assistants.

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.....[3]

Many candidates did not know what a skills audit is. Consequently the marks awarded for this question were low. Good responses recognised how a skills audit would identify skills gaps within the existing workforce and this would favour new applicants who possess them. Weaker responses discussed issues such as how a skills audit might affect training of new staff after they are appointed.

### Question 3 (b) (i)

(b) Sonja would like to use on-the-job training, rather than off-the-job training, to train the sales assistants.

(i) Identify **one** benefit to *Yuletide Joy* of using on-the-job training to train the sales assistants.

.....  
.....[1]

The most common response awarded a mark was the low costs compared with off-the-job training. Some incorrect responses gave benefits to the employee, not the employer.

### Question 3 (b) (ii)

(ii) Identify **two** drawbacks to *Yuletide Joy* of using on-the-job training to train the sales assistants.

1 .....

.....

2 .....

.....

[2]

Many responses gained no marks because they did not give drawbacks to the business. For example the impact on the employee (e.g. might be nervous being trained in front of customers) or on customers (they might get annoyed by slower-than-usual service) gained no marks. Good responses identified how the business would be affected, for example by lower productivity/output/sales due to slower service or fewer repeat customers due to slow service/negative social media reviews.

### Question 4 (a)

4 Henry is aware that, whichever option is chosen, the business will need to operate within legal and financial constraints.

(a) Explain how **legal** constraints might affect the marketing of *Yuletide Joy's* Christmas decorations.

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.....

[3]

This question drew on synoptic content from Unit 1 (knowledge of legal factors affecting marketing). There were some very good responses that discussed how specific laws (e.g. Consumer Rights Act) might affect the marketing/promotional decisions of the business in the case study. Some responses did less well because their answers were not applied to the context. Some weaker responses did not focus on legal issues (e.g. by discussing ethical issues) and/or marketing (e.g. by discussing minimum wage legislation and the pay of shop workers).

### Question 4 (b)

- (b) Explain how **financial** constraints might affect the marketing of *Yuletide Joy's* Christmas decorations.

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[3]

At least 2 marks were awarded to responses which discussed how a lack of funds might mean that some marketing options (e.g. radio advertising) might be unaffordable resulting in cheaper options (e.g. leaflets/flyers) being used instead. Answers which applied this to the context of the business gained full marks. Some responses showed a lack of understanding of financial constraints or did not demonstrate how they might affect marketing decisions.

### Question 5

- 5 Sonja and Henry have very different attitudes to risk. Sonja does not like to take risks when it comes to spending money, whereas Henry is more prepared to take financial risks.

Evaluate how Sonja and Henry's differing attitudes to risk may affect their ability to choose between the three options.

[12]

This question asked candidates to evaluate the impact on the decision-making process of the two partners' differing attitudes to risk.

Some responses did not answer the question because they instead discussed the three options in a way that was very similar to the response to Question 7. Such responses will gain no marks because the question is about the decision-making process itself, not the options being considered.

Some responses did not score many marks because they discussed the extent to which each of the three options was risky, without discussing how Sonia and Henry's differing attitude towards risk would affect their choice of outcome. Many responses did identify that Sonia would be more likely to prefer a low-risk option whereas Henry would be more likely to be favourable towards high risk options and so managed to gain some Level 1 marks. Responses which considered the impact of this on the decision-making process (e.g. how this might result in disagreement between them) achieved Level 2. Those which then considered how the disagreement might introduce delay and conflict which might threaten the long-term success of the partnership (both personal and business-relationships) achieved at least Level 3. Some interesting evaluative discussion considered how, in effect, if the partnership is to continue, then only low-risk options might be chosen since Sonia might refuse to pursue riskier choices.

### Question 6 (a) (i)

6 Henry thinks that if **Option 2 – Open a second shop** is chosen, the shop will need to be trading by August. A schedule for the opening of the new shop together with a critical path network diagram is shown in **Fig. 1**, below.

Activity	Description	Expected duration (weeks)
A	Identify location and pay deposit	3
B	Identify suppliers for fixtures and fittings	2
C	Obtain finance	4
D	Plan recruitment needs for shop	3
E	Obtain fixtures and fittings	7
F	Recruit staff	4
G	Exchange contracts on the lease	7
H	Install fixtures and fittings	4
I	Pre-shop launch preparation	5

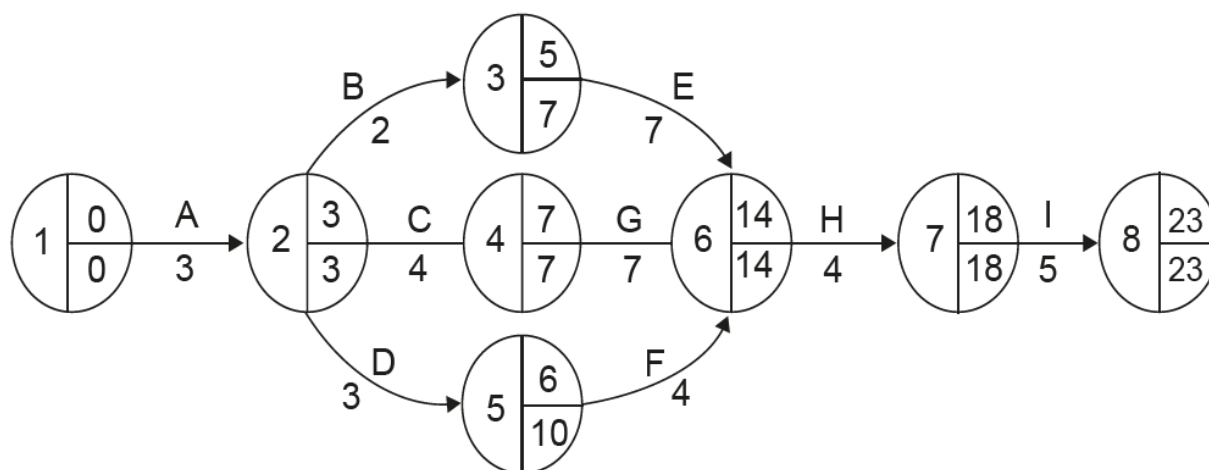


Fig. 1

Refer to **Fig. 1**.

(a) (i) What is the shortest length of time that the opening of the second shop can take?

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.....[1]

Candidates who had prepared for a question on critical path analysis (CPA) had no difficulty gaining the mark available for 23 weeks. A minority answered 23 days or hours which was incorrect and so gained no marks. There were many incorrect responses indicating a lack of understanding of this topic.

### Question 6 (a) (ii)

(ii) Identify the sequence of activities on the critical path.

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.....[1]

Again, candidates who had a good understanding of critical path analysis had no difficulty identifying the activities on the critical path. There were responses which did not appear either to understand CPA or the question.

### Question 6 (a) (iii)

(iii) Calculate the float time for Activity F.

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.....[2]

Only a minority gave the correct answer. Some calculated the correct value but gave no time period or an incorrect time period and so gained only one mark. There were many incorrect answers revealing little or no understanding of how to calculate float time.

### Question 6 (b)

(b) Explain **one** benefit to *Yuletide Joy* of knowing the float time for Activity F.

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.....[2]

Relatively few responses gave a valid benefit to the business (e.g. being able to delay the start or finish of the activity without introducing a delay to the overall project length). Many responses instead discussed benefits of completing Activity F itself, perhaps revealing a lack of understanding of the concept of float time.

## Question 7

- 7 Evaluate which **one** of the three options under consideration at *Yuletide Joy* would best secure the long-term future of the business. Justify your view.

[16]

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This high tariff question is based heavily on the information contained in the case study about the three options together with the information in Appendix 1 and 2.

Candidates in general did seem to be better prepared for this question than in recent series and it was pleasing to see the number of analytical responses that were awarded a mark in Level 3 or higher. However there were still a number of very descriptive responses which did little more than repeat whole sections of the pre-release material without adding anything original.

Candidates who achieved a mark in Band 1 (1-4 marks) did so because they used the information in the case study to draw valid conclusions that would be helpful when making the business decision. For example identifying that Option 1 was the cheapest option and Option 3 had the longest pay-back period. Candidates who only repeated information from the case study (e.g. by stating that Option 1 had a payback period of 2 years 3 months and option 3 had an ARR of 12%) gained no marks.

Candidates who achieved a mark in Band 2 (5-8 marks) did so because they explained the significance or usefulness of the information identified previously. For example the benefit to the business of choosing Option 1 because it has the shortest payback period is that the business will start to earn profits from this option earlier than either option 1 or 3. However, responses demonstrating no understanding were not given, for example a statement that Option 3 would achieve the lowest profit because its ARR is lowest is incorrect because it confuses total profit with profit as a percentage of investment.

Candidates who achieved a mark in Band 3 (9-12 marks) did so because they analysed the implications of the information identified previously for the overall performance of the business. For example a benefit to the business of choosing option 1 is that the business would have products in higher demand at other times of the year. This would increase demand outside the Christmas period resulting in more even cash-inflows during the year helping to improve cash flow management and so a lower risk of business insolvency.

Candidates who achieved a mark in Band 4 (13-16 marks) did so because, having achieved Band 3 (analysis) they could offer a reasoned conclusion (i.e. they gave valid reasons for their choice of which option the business should choose). The reasons, to be valid, would need to be based on the information in the case study. To achieve a mark above 13 the justification would need to be in context and to achieve a mark above 14 the justifications would need to have greater detail.

Reasons for poor performance on this question included:

a discussion of the 'risk' involved in each decision that was too vague because it did not identify a valid reason for the risk (for example many candidates stated that option 1 was least risky because it was the least expensive, but the amount of the investment is not, of itself, a reason for risk). Discussion of risk

should be based on one of the types of risk identified in the specification, for example an option identified as being diversification (Ansoff) would be more of a marketing risk than an option involving only market development.

using as justification the idea that 'high risk results in high reward'. This is a fundamental misunderstanding of the relationship between risk and reward. A risky option is more likely, by definition, to result in failure than success. Increasing the risk does not increase the probable reward. The most expensive option is not necessarily the riskiest but it could potentially have the biggest impact on the organisation if it failed; whether or not this is high risk requires a comparison with all other options to be made.

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