

CAMBRIDGE TECHNICALS LEVEL 3 (2016)

Examiners' report

BUSINESS

05834–05837, 05878

Unit 3 January 2021 series

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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 and the mark scheme can be downloaded from OCR.

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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.

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, a response which argues using the particular circumstances of the business in the pre-release scenario will be rewarded more highly.

The number of candidates sitting the exam was lower than in some recent sessions. The following comments reflect the responses given by the candidates who sat the exam.

| <i>Candidates who did well on this paper generally did the following:</i> | <i>Candidates who did less well on this paper generally did the following:</i> |
|--|---|
| <ul style="list-style-type: none"> • 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 • an ability to focus on the decision-making process when answering Question 5 • an ability to use the information in the pre-release to consider the implications for the business of choosing between the three options in Question 7 • the ability to apply relevant content from Unit 1. | <ul style="list-style-type: none"> • did not answer the question set (e.g. for Question 6b: explained how a risk register could be used rather than describe what it contains) • in answering Question 7: copied information from the pre-release without explaining what it means for the business and how it can help it to choose between the three options • gave similar responses to both Questions 5 and 7. |

Question 1 (a)

- 1 (a) Running *Heavenly Scented Soaps by James (HSSJ)* involves taking many business decisions, some of which are tactical.

Identify with a tick (✓) the **two** tactical decisions from the table below.

You should **only** tick **two** boxes.

| Business Decision | Tick (✓) |
|---|----------|
| Deciding to change the supplier of the perfumes | |
| Deciding to conduct market research using a focus group | |
| Deciding to introduce a new range of novelty handmade soaps | |
| Deciding when to launch an advertising campaign | |

[2]

Most candidates gave the correct two responses to this question.

Question 1 (b)

- (b) Explain how a strategic business decision is different to an operational business decision.

.....

.....

.....

..... [2]

Most candidates achieved full marks for recognising the whole-business and/or long-term impact of strategic decisions and the specific and/or short-term impact of operational decisions. Some weaker responses were too vague, e.g. by stating that managers take both strategic and operational decisions without clearly distinguishing between different layers of management.

Question 1 (c)

(c) Business decisions involve opportunity costs.

Identify **one** possible example of an opportunity cost to *HSSJ* if **Option 3 - Introduce a new range of novelty soaps** is chosen.

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

Most responses recognised that a possible opportunity cost might come from the inability to pursue either Option 1 or 2. Weaker responses incorrectly stated a financial cost of pursuing Option 3.

Question 1 (d)

(d) Sarah has provided James with financial forecasts for all three options.

Explain why Sarah's forecasts might be biased.

.....
.....
.....
..... [3]

Most responses understood how bias could result from Sarah's financial interest in having James choose Option 3 and how this could affect the accuracy of the information contained in the forecasts for each option. Incorrect responses discussed other reasons why the financial forecasts might be inaccurate, e.g. due to Sarah's lack of knowledge of the business or the market.

Question 2 (a)

2 The cash flow statement below shows actual cash flow for HSSJ for the first five months of trading.

| | July | August | September | October | November |
|-----------------|------|--------|-----------|---------|----------|
| | £ | £ | £ | £ | £ |
| Cash inflows | 2500 | 3400 | 4000 | 4200 | 4400 |
| Cash outflows | 3000 | 2800 | 2500 | 2600 | 2800 |
| Net cash flow | -500 | 600 | 1500 | 1600 | 1600 |
| Opening balance | ??? | 100 | 700 | 2200 | 3800 |
| Closing balance | 100 | 700 | 2200 | 3800 | 5400 |

(a) Calculate the opening balance in July. Write your answer in the box below. Do **not** write on the cash flow statement.

Show your working

Opening balance for July: £

[2]

Most responses gave the correct answer. Some responses knew how to calculate the Opening balance from the figures given but did not correctly deal with the subtraction of a negative number – these responses gained one mark for knowledge of the correct method.

Question 2 (b)


(b) Explain the difference between net cash flow and profit.

.....

.....

.....

..... [2]

| | | |
|---|-----------------------------|---|
|  | <p>Misconception</p> | <p>A high proportion of responses did not gain any marks. All that was needed was an accurate definition of, or method of calculating, each concept. Relatively few had a clear understanding that net cash-flow is the balance of all cash movements into and out of a business whereas profit is a sub-set relating to only the business' operating activities.</p> |
|---|-----------------------------|---|

Question 2 (c)

- (c) If **Option 2 - Increase production of existing products** is chosen, *HSSJ* would need to spend £10 000. This would be financed by a loan of £5000 from the bank and £5000 from cash currently held by *HSSJ*.

Explain the likely impact on *HSSJ*'s **cash flow** if all three movements of cash take place in the same month.

.....

.....

.....

..... [2]

This question was answered well by only a small minority of candidates. Very few explained why there would be a net cash outflow of £5000. Some weak responses assumed that the cash in the bank did not feature in the business' cash-flow.

Question 3 (a)

- 3 If **Option 2 - Increase production of existing products** is chosen, James would need to employ a part-time worker to assist with production and sales.


(a) Explain how James could use a skills audit to help him recruit a suitable employee.

.....

.....

.....

..... [3]

| | | |
|---|----------------------|--|
|  | Misconception | Most responses showed some understanding of how a skills audit could be used to identify skills-gaps in the present workforce. Good responses then showed how this gap analysis could be used to identify suitable applicants to add to the workforce. Weaker responses confused a skills audit with a person specification or discussed how it could be used to develop training within the business. |
|---|----------------------|--|

Question 3 (b)

(b) Explain **one** benefit to *HSSJ* of providing the new employee with on-the-job training.

.....

.....

.....

..... [3]

Most responses understood how on-the-job training is different from off-the-job training (although most candidates appear to believe incorrectly that off-the-job and external training are the same thing this misunderstanding did not affect marks given for this question). Relatively few were able to explain one benefit to the business in depth. Weaker responses either discussed the impact on the employee or addressed multiple benefits without developing any of them.

Question 4 (a)

4 Sarah thinks that, if **Option 3 - Introduce a new range of novelty soaps** is chosen, *HSSJ* needs to do more than simply copy the competitive strategies of its potential competitors. Sarah is aware of Porter's Generic Competitive Strategies (see **Fig.1** below).

| | | | |
|-------|--------|---------------------------------|-----------------------|
| Scope | Broad | Cost leadership | Differentiation |
| | Narrow | Cost focus | Differentiation focus |
| | | Cost | Differentiation |
| | | Source of competitive advantage | |

Fig. 1

(a) Explain **one** reason why a 'cost leadership' strategy is unlikely to be successful for *HSSJ*.

.....

.....

.....

..... [3]

Very few responses demonstrated a good understanding of a cost-leadership strategy. Of these few then explained why it would be a poor strategy for a small business to 'out compete' larger low-cost competitors.

Question 4 (b)

(b) Explain how *HSSJ* could use a 'differentiation focus' strategy if Option 3 is chosen.

.....

.....

.....

..... [3]

Responses to 4b were generally better to those in 4a. Most responses gained marks for applying some understanding of 'differentiation' rather than a 'differentiation-focus' strategy.

Question 5

5 Sarah is of the opinion that business decisions should be based on whatever makes financial sense for the business. All other considerations, including business ethics, should be ignored.

Evaluate the benefits and drawbacks to *HSSJ* of making decisions using financial criteria alone.

[12]

Responses to this question demonstrated a good understanding of the impact of only using financial criteria when taking business decisions. Responses firstly considered the benefits of focussing on financial criteria – good responses linked this to cash-flow, solvency and profitability. Then, there was often discussion of the drawbacks of ignoring non-financial criteria such as business ethics or the interests/attributes of the owners. Good responses linked this to customer preferences, sales revenue and profitability. These responses achieved a high mark in Band 2 (4-6 marks). However, there were relatively few responses who tied this together to consider the overall impact on the decision-making process of taking decisions based on limited criteria – such responses achieved a mark in Band 3 or 4.

Question 6 (a) (i)

6 Whichever option is chosen, *HSSJ* would benefit from the use of contingency planning and a risk register.

(a) One risk to *HSSJ*'s soap production is the non-arrival of raw materials from a major supplier.

(i) State **two** suitable contingencies that James could make to lessen the impact should this event occur.

1

.....

2

.....

[2]

Most responses gave two valid contingencies. Weaker responses did not address the question's requirements by giving contingencies that would only help to prevent the non-arrival of supplies.

Question 6 (a) (ii)

(ii) State **one** drawback to *HSSJ* of contingency planning.

.....

..... [1]

Most responses gave a valid drawback. Incorrect responses did not address the 'planning' requirement in the question and gave an impact of implementing a contingency plan.

Question 6 (b)

(b) Describe what a risk register shows.

.....

.....

.....

..... [3]

Most responses had some idea that a risk register is designed to help prepare for possible future risks and many responses achieved full marks. Weaker responses either confused a risk register with a document that records risks that have taken place or explained the benefits of using a risk register.

Question 7

- 7 Recommend which one of the three options is most suitable for *HSSJ*. Justify your recommendation.

[16]

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 given a mark in Level 3 or higher. However, there were still many 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 shortest payback period. Candidates who merely repeated information from the case study 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 2 or 3. However, responses demonstrating no understanding were not credited, for example a statement that Option 3 would achieve the highest profit because its ARR is highest was judged too vague because it potentially 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 3 is that the business would produce a range of specialist products for sale in specialist outlets. This would be likely to increase demand and help the business to achieve a higher mark-up on its products, potentially increasing both revenue and profits. However, this depends on the wholesale price it will need to charge the retail outlets who could use their bargaining power to lower HSSJ's margins, potentially lowering revenue and profits.

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:

- repetition of the case study with no development. For example, stating the fact that Option 3 would see Sarah and James form a partnership without explaining what this would mean.
- making assertions without supporting evidence or reasoning. For example: stating that an ARR of 14% is 'high' without explaining why; asserting that Sara's involvement as a partner will 'enable the business to expand' without explaining how or why.
- 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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