

CAMBRIDGE TECHNICALS LEVEL 3 (2016)

Examiners' report

BUSINESS

05834–05837, 05878

Unit 3 January 2022 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 higher 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"> • demonstrated good understanding of investment appraisal techniques used in the case study (e.g. payback, average rate of return) • demonstrated a good understanding of the business impact of business decisions and internal/external influences, for example the impact on business revenue and profitability of an improvement in a business' corporate image – then used this approach when answering Question 7. • in answering Question 5, focused on the impact of uncertainty on the decision-making process itself (for example how uncertainty might bias the decision towards favouring low-risk options). 	<ul style="list-style-type: none"> • demonstrated a lack of understanding of concepts used in the case study, e.g. by confusing revenue expenditure with revenue, confusing payback period with investment rate of return • used vague and ambiguous language in responses and so did not demonstrate clear understanding of concepts and the linkage between them, for example 'production slows down and their ability to deal with customers is affected and money is lost' • used circular reasoning so that answers to 'explain' questions would just restate the question and then repeat the point made rather than develop it further, for example, in response to Question 4b: 'if they get a good reputation then customers approve of the company more so they get a good name in the industry and this leads to them being better known'. • in answering Question 5, discussed the impact on business performance of choosing each option rather than the required focus on the decision-making process itself • 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.

Question 1 (a)

1 Different types of business information will be used to choose between the three options under consideration at *FCC*.

(a) Draw a line linking each of the **three** types of information to its correct definition. You must only draw **three** lines.

1	External	Data that can be expressed as numbers
2	Forecasted	Data from sources within the business
3	Quantitative	Data that is a prediction of future events
		Data from sources outside the business
		Data that cannot be converted into numbers

[3]

Most candidates achieved full marks. Some responses selected an incorrect option for 'Quantitative'.

Question 1 (b) (i)

(b) Primary research will be used to obtain information about the three options.

(i) State **one** benefit to *FCC* of using primary research.

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

Most responses recognised that primary research can be made specific to the business' requirements. Weaker responses stated it would always be accurate or unbiased.

Question 1 (b) (ii)

(ii) State **one** drawback to *FCC* of using primary research.

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

Most responses identified an appropriate drawback however some responses gave drawbacks that would only be true of secondary research (e.g. it might be out of date).

Question 1 (c)

(c) The final decision as to which of the three options to recommend to *FCC*'s shareholders will be made by Tom, the Production Director.

Explain why asking Tom to make the recommendation might result in a biased choice being made.

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

Most responses gave an accurate statement about Tom's role in the business and then developed this to show how this could influence his decision-making. Lower performing responses confused being biased with making an incorrect choice due to lack of information.

Question 2 (b) (ii)

(ii) State **one** drawback to *FCC* of using average rate of return (ARR) as part of an investment appraisal.

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

Most responses given were generic and not specific to ARR (e.g. 'only a forecast, 'could be inaccurate' etc.).

Question 3 (a) (i)

3 (a) *FCC*'s current rate of absenteeism is too high.

(i) State what is meant by 'absenteeism'.

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

Most responses recognised how the concept relates to employees not being present in the workplace. However some responses restated the question and so did not demonstrate understanding (e.g. 'it's when workers are absent')

Question 3 (a) (ii)

(ii) Explain **one** problem that *FCC* could face due to a high rate of absenteeism.

.....
.....
.....
.....
.....
..... [2]

Most responses recognised that absenteeism will either reduce or slow-down production and could then give a negative consequence to the business of this (e.g. reduced sales/sales revenue). Lower performing responses focused on the impact on stakeholders without the impact on the business (e.g. unmotivated employees or dissatisfied customers).

Question 4 (a)

4 (a) Which category of the Boston Matrix best describes FCC's tourer caravans?

Explain your answer.

Boston Matrix category

[1]

Explanation

[2]

Relatively few candidates demonstrated sufficient knowledge and understanding of the Boston Matrix to do well on this question. Some candidates chose not to respond to this question. Others gave an incorrect category (or occasionally a non-existent one). Few gave a correct category and a correct reason relating to the two axes of the matrix. Some responses gained 2 marks because they confused growth of the whole market with FCC's own sales growth. There was also confusion between the Boston matrix and the Ansoff matrix.

	Misconception	Some candidates confused the Boston matrix with Ansoff's matrix.
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This question was answered well by relatively few candidates. Many responses ignored the instruction to focus on the decision-making process and instead discussed how uncertainty might affect the outcome of choosing an option. For example, many responses discussed how a lack of certainty about Brexit or exchange rates might affect the actual profitability of Option 3 as compared with the financial forecasts. Good responses instead discussed how uncertainty makes any decision more financially risky and so the sensible response is to choose an option that is less affected by external influences. Such responses tended to argue that this would make the business less likely to choose Option 3 and more likely to choose Option 1, even though Option 1 might be the least preferred option (as many argued in Question 7). Other good responses considered the impact on the speed of decision-making, its accuracy and the potential for differences of opinion among the decision-makers based upon factors such as their attitude to risk.

Question 6 (a) (i)

6 (a) (i) State **two** benefits to a business of making a contingency plan.

1

.....

.....

2

.....

.....

[2]

Relatively few responses demonstrated a sound understanding of the benefits of contingency planning. Weaker responses saw contingency planning as about having a back-up plan in case the original plan does not go as well as hoped. Relatively few gave good responses relating to the ability to recover from or cope with external shocks.

Question 6 (a) (ii)

(ii) State **two** drawbacks to a business of making a contingency plan.

1

.....

.....

2

.....

.....

[2]

Most responses to this question gave two valid drawbacks; usually relating to the opportunity cost of the resources used to develop and maintain contingency plans.

Question 6 (b)

(b) If **Option 3 - Export to Eastern Europe** is chosen, the tourer caravans will need to be transported by ship from *FCC's* local seaport to their destination country. Alternative forms of transport would be unsuitable due to the weight and size of the tourer caravans.

Identify and explain **one** contingency that Anika could make for occasions when *FCC's* local seaport is unavailable due to bad weather.

Contingency

.....

.....

Explanation

.....

.....

.....

[2]

Most responses responded to the statement in the question that alternative forms of transport would be unsuitable and either suggested an alternate seaport or holding buffer stock at the destination. However some responses ignored the statement in the question and suggested that the caravans be flown or driven.

Question 7

7 Recommend which **one** of the three options *FCC* should take. Justify your recommendation.

[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 given a mark in Level 3 or higher. However there were still a large 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 shortest payback period. Candidates who only 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 repay its investment 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. Equally, responses stayed in Level 1 if the attempted development is incorrect, for example confusing revenue expenditure with revenue.

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 2 is that the business would produce an updated product range appealing to a wider range of customers. This would be likely to increase demand and enable the business to achieve a higher mark-up on its products, potentially increasing both revenue and profits. However this might result in them selling fewer caravans to their existing market niche, with an equivalent impact on revenue and potential 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 an outside investor receiving a 15% equity stake without explaining what this would mean
 - making assertions without supporting evidence or reasoning. For example: stating that a payback period of 3 years and 3 months is 'quick' without explaining 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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