

Cambridge TECHNICALS LEVEL 3

BUSINESS

Cambridge
TECHNICALS
2016

Combined feedback on the June 2017 exam paper
(including selected exemplar candidate answers
and commentary)

Unit 1 – The business environment

Version 1

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INTRODUCTION

This resource brings together the questions from the June 2017 examined unit (Unit 1), the marking guidance, the examiners comments and the exemplar answers into one place for easy reference.

We have also included exemplar candidate answers with commentary for questions 23, 24, 25, 27 and 30.

The marking guidance and the examiner's comments are taken straight from the Report to Centre for this question paper.

The Question Paper, Mark Scheme and the Report to Centre are available from:

<https://interchange.ocr.org.uk/>

OCR
Oxford Cambridge and RSA

Level 3 Cambridge Technical in Business
05834/05835/05836/05837/05878

Unit 1: The business environment

Thursday 18 May 2017 – Afternoon
Time allowed: 2 hours

You must have:
• a clean copy of the pre-release (Insert C421)

You may use:
• a calculator

First Name Last Name

Centre Number Candidate Number

Date of Birth

INSTRUCTIONS

- Use black ink.
- Complete the boxes above with your name, centre number, candidate number and date of birth.
- Answer **all** the questions.
- Write your answer to each question in the space provided.
- If additional answer space is required, you should use the lined page(s) at the end of this booklet. The question number(s) must be clearly shown.
- The pre-release research brief is required for **Section B** only.

INFORMATION

- The total mark for this paper is **90**.
- The marks for each question are shown in brackets []
- This document consists of **20** pages.

| FOR EXAMINER USE ONLY | |
|-----------------------|-----------|
| Question No. | Mark |
| Section A: 1-20 | 20 |
| Section B: 21 | 14 |
| 22 | 14 |
| 23 | 14 |
| 24 | 14 |
| 25 | 14 |
| Section C: 26 | 14 |
| 27 | 14 |
| 28 | 14 |
| 29 | 14 |
| 30 | 14 |
| 31 | 14 |
| 32 | 14 |
| Total | 90 |

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Cambridge Technicals Business

Unit 1: The Business Environment
Level 3 Cambridge Technical in Business
05834 - 05837

Mark Scheme for June 2017

Oxford Cambridge and RSA Examinations

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Cambridge Technicals Business

Level 3 Cambridge Technical Certificate in Business 05834 - 05835
Level 3 Cambridge Technical Diploma in Business 05836 – 05837; 05878

OCR Report to Centres June 2017

Oxford Cambridge and RSA Examinations

PRE-RELEASE MATERIAL

The question paper is based on a pre-release research brief which is issued to centres 6-8 weeks before the examination.

Questions in the question paper will ask learners to draw on the knowledge and understanding gained through researching businesses in their local area which are similar to the business in the research brief.

The pre-release Research Brief can be found on Interchange.

OCR
Oxford Cambridge and RSA

Level 3 Cambridge Technical in Business
05834/05835/05836/05837/05878

Unit 1: The business environment

INSERT

18 May 2017 – Afternoon

INSTRUCTIONS FOR LEARNERS

- This is a clean copy of the pre-release material which you may have already seen. You should refer to it when answering the examination questions which are printed in a separate booklet.
- You may **not** take your previous copy of the pre-release material into the examination.
- You may **not** take notes into the examination.

INFORMATION FOR LEARNERS

- This document consists of 2 pages. Any blank pages are indicated.

INSTRUCTIONS TO EXAMS OFFICER/INVIGILATOR

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GENERAL EXAMINER COMMENTS ON THE PAPER

Candidates who did well in this unit demonstrated five particular strengths:

- good knowledge and understanding across the entire unit
- numerical skills of calculation and interpretation
- research of a wide variety of businesses
- the ability to apply understanding to the unseen scenario in Section C
- the ability to analyse and evaluate.

Sadly, some candidates exhibited a significant lack of knowledge of the subject and limited ability to analyse key facts; possibly indicating that they have been entered for the examination too early in their course of study. Given that candidates can only resit the examination once, centres should ensure that candidates are fully prepared before taking this assessment.

Section A of the paper was generally well answered by most candidates. Disappointingly, some candidates lost marks by leaving a question blank. In a multiple choice section this is poor examination technique. Candidates should be encouraged to indicate a response to all 20 questions. A minority of candidates also lost marks because they ticked two responses, say A and D, such hedging cannot be awarded and candidates should be instructed not to take this approach. Where a candidate indicates an answer and subsequently changes their mind, they should clearly cross out their original tick.

Section B appeared to reveal that those candidates who had studied a wide range of businesses were able to select appropriate businesses to answer each of the five questions. Candidates should be encouraged to vary the businesses they use depending on the question i.e. to choose a specific business for which their understanding is suitable for answering the question. Candidates who chose to answer all five questions on the same business appeared to do less well.

Section C contained three high tariff extended response questions. These questions are marked using 'levels of response' criteria. 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 impact on sales, costs, profits, cash flow, customer loyalty, reputation and future performance. 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. Whilst 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 scenario given in Section C will be rewarded more highly.

The ability of candidates to perform calculations in the multiple choice section varied significantly. As did candidates' ability to interpret the data contained in the income statement in Section C for question Q27. Centres are advised to give their candidates a great deal of practice at answering calculation and numerical interpretation questions. One way of doing this would be to display a short numerical question as a starter to each lesson, which candidates can tackle as they arrive into the classroom. This makes good use of time and allows numerical skills to be emphasised and improved over time.

Areas which caused most problems on this paper were business ethics (Q30), economic factors (Q32) and empowerment (Q25). On the other hand, Q29 relating to not listening to customers and Q31 on sources of finance, were generally well answered.

Resources which might help address the examiner comments:

From the link below, you'll find 'The OCR guide to examinations' (along with many other skills guides)

<http://www.ocr.org.uk/i-want-to/skills-guides/>

Command verbs definitions

<http://www.ocr.org.uk/Images/273311-command-verbs-definitions.pdf>

Questions 1, 2 and 3

Section A

Answer **all** questions. Put a tick (✓) in the box next to the **one** correct answer for each question.

1 Which of the following is an example of a secondary sector business?

(a) A football club

(b) A salmon farm

(c) A shoe manufacturer

(d) A supermarket

[1]

2 The IT function of a large organisation is **most** likely to support the sales function by:

(a) backing up employee records

(b) creating a production schedule

(c) updating payroll software

(d) upgrading a customer database

[1]

3 A petrol station will make a net loss if:

(a) its cash outflows exceed its cash inflows

(b) its costs are greater than its revenue

(c) its liabilities are greater than its assets

(d) its output is above its break-even point

[1]

Mark scheme guidance

One mark for each correct answer.

Examiner comments

The questions which appeared to cause most difficulty in Section A were Q3, Q7, Q11, Q13 and Q20.

Question 3 – This question revealed significant confusion between the concepts of profit/loss, cashflow and breakeven. These are key financial areas for which candidates need to have a clear understanding. Centres are advised to ensure candidates have a secure understanding of each of these financial concepts before attempting the assessment of this unit.

Questions 4, 5 and 6

4 Which of the following is **most** likely to cause a business to fail?

(a) Detailed and careful planning

(b) Good knowledge of the market

(c) Reliance on one major customer

(d) Tight financial control

[1]

5 Which one of the following documents is a legal requirement for a private limited company?

(a) Articles of association

(b) Cash flow statement

(c) Deed of partnership

(d) Organisation chart

[1]

6 Which of the following functional areas is **most** likely to be responsible for sourcing raw materials?

(a) Finance

(b) Operations management

(c) Procurement

(d) Sales

[1]

Mark scheme guidance

One mark for each correct answer.

Questions 7, 8 and 9

7 Patrick makes garden statues. He estimates his costs for 2017 to be:

- Concrete mixer hire: £840 per annum
- Raw materials: £5 per statue
- Advertising: £300 per annum.

If Patrick sells each statue for £25, the break-even output for 2017 would be:

- (a) 15 statues per annum
- (b) 26 statues per annum
- (c) 47 statues per annum
- (d) 57 statues per annum

[1]

8 Which of the following is a benefit to a business of having a centralised organisational structure?

- (a) Communication paths will be short
- (b) Employees are encouraged to use their own initiative
- (c) Important decisions are made by senior management
- (d) Managers will have a narrow span of control

[1]

9 Which of the following is a correct definition of the term 'chain of command'?

- (a) The formal line of communication in an organisation
- (b) The number of people for which a line manager is responsible
- (c) The power to make complex business decisions
- (d) The various departments involved in making a product

[1]

Mark scheme guidance

One mark for each correct answer.

Examiner comments

Question 7 – Worryingly, few candidates showed any evidence of trying to work out this calculation on paper. There was very little evidence of candidates knowing or attempting to apply the break-even formula ($BE = FC/(SP-VC)$).

Some candidates did manage to work out the correct answer by working backwards i.e. calculating the profit/loss which would be made at each of the suggest break-even levels of output. This is a valid, albeit time consuming, approach. The most direct method of working out the question was rarely seen: $£1140/£20 = 57$ statues per annum.

Questions 10, 11 and 12

10 Which of the following is a **social** factor that may affect a clothing retailer?

(a) A change in customer buying habits

(b) A government initiative to reduce carbon emissions

(c) New legislation which restricts store trading hours

(d) The closure of a competitor's store

[1]

11 A charity shop operates in the:

(a) private sector

(b) public sector

(c) secondary sector

(d) third sector

[1]

12 A company re-designs its logo so that it looks very similar to that of the market leader. The company is likely to have broken the:

(a) Companies Act

(b) Copyright, Designs and Patents Act

(c) Data Protection Act

(d) Equality Act

[1]

Mark scheme guidance

One mark for each correct answer.

Examiner comments

Question 11 – Many candidates mistakenly thought that charity shops operate in the public sector. This reveals underlying confusion regarding the difference between the private, public and third sector organisations.

Questions 13, 14 and 15

13 Which pair of the following forms of business has unlimited liability?

- (a) A community interest company and a partnership
- (b) A partnership and a sole trader
- (c) A private limited company and a community interest company
- (d) A sole trader and a private limited company

[1]

14 Which of the following is an example of delegation?

- (a) A chief executive making an after-dinner speech at an annual conference
- (b) A director taking responsibility for mistakes which the company has made
- (c) A manager passing the authority to do a specific task to an employee
- (d) A supervisor advising an operative how to manage their workload

[1]

15 Which of the following is **not** an example of a corporate growth objective?

- (a) Controlling operating costs
- (b) Extending service provision
- (c) Increasing market share
- (d) Opening new retail outlets

[1]

Mark scheme guidance

One mark for each correct answer.

Examiner comments

Question 13 – This question revealed a general lack of knowledge about legal forms of business ownership. The most common, and incorrect, answer was D. This suggests that candidates do not have a firm grasp of the concept of limited/unlimited liability and/or fail to understand the difference between partnerships and private limited companies.

Questions 16, 17 and 18

16 A savoury snack manufacturer can produce a maximum of 1440 million packets of crisps per annum. It needs to produce 500 million packets of crisps per annum to break even. If the company produced 1020 million packets of crisps its margin of safety would be:

(a) 420 million packets of crisps

(b) 500 million packets of crisps

(c) 520 million packets of crisps

(d) 940 million packets of crisps

[1]

17 The Partnership Act requires a business operating as a partnership to:

(a) create a deed of partnership

(b) hold an Annual General Meeting (AGM)

(c) publish its accounts in a national newspaper

(d) share profits between partners

[1]

18 Which one of the following is a task which is **most** likely to be carried out by an employee working in the research and development department of a chocolate bar manufacturer?

(a) Create new recipes

(b) Design an advertising campaign

(c) Find cheaper suppliers of ingredients

(d) Redesign the packaging label

[1]

Mark scheme guidance

One mark for each correct answer.

Questions 19 and 20

19 Which of the following is a **financial** factor which may affect the future success of an electrical appliance retailer?

(a) Market research data

(b) Product range

(c) Recruitment procedures

(d) Sales revenue

[1]

20 Which one of the following would lower a firm's break-even point?

(a) Boosting sales

(b) Increasing fixed costs

(c) Lowering variable costs

(d) Reducing selling price

[1]

Mark scheme guidance

One mark for each correct answer.

Examiner comments

Question 20 – This question tested a candidate's understanding of break-even analysis. Many candidates were unable to determine that lowering variable costs would lower the break-even point. The most common incorrect answer was A, boosting sales. This suggests that candidates are confusing the level of break-even with the speed in which a firm might achieve break-even.

Question 21

Section B

Answer **all** questions in this Section.

All of the questions in this Section should be answered in relation to businesses you have researched. A clean copy of the research brief is provided.

21 Identify **two** internal stakeholder groups in a business that you have researched.

Name of business

Activity of business

1. **Responses include:**
2.
 - owners/sole trader/partners/shareholders/employers
 - employees/assistants/operatives/workers/staff
 - directors/CEO
 - managers/senior management team
 - supervisors
 - apprentices
 - trade unions.**[2]**

Mark scheme guidance

One mark for each correct identification up to a maximum of two identifications.

Stakeholders **must** be internal.

Accept specifics e.g. if business is a hospital, accept 'doctors' as 'employees'; or if business is a school, accept 'government' as 'owners'. Do not accept 'patients' or 'students' as these would be customers and, therefore, external stakeholders.

Examiner comments

Generally well answered, most candidates were able to suggest two internal stakeholders of their chosen organisation. Some candidates failed to achieve any marks because they confused internal stakeholders with external stakeholders.

Question 22

- 22** Describe **two** tasks performed by the human resources function in a business that you have researched.

Name of business

Activity of business

1. **Responses include:**
- ... • recruitment e.g. create job description and person specification, design job advertisement, issue application forms
 - ... • selection e.g. short listing, interviewing, criminal record check
 - ... • manpower planning e.g. redundancies, dismissal
 - ... • reward systems e.g. motivation package, remuneration, payroll
- 2.
- ... • discipline e.g. dismissal, redundancy
 - ... • grievance procedure e.g. formal discussion
 - ... • training e.g. needs analysis, induction, on-the-job, off-the-job, professional development
 - ... • workforce performance e.g. monitor indicators, appraisal
 - ... • health and safety of workers e.g. safe working environment
 - ... • employer/employee relations e.g. consultation, negotiation, employment law
 - ... • dismissal e.g. redundancy.
- [4]**

Mark scheme guidance

One mark for each correct identification up to a maximum of two identifications, plus a further one mark for each of two developments.

NB Description **not** explanation required. (How, not why).

Identification mark – what.

Second mark – description – how.

Examiner comments

Pleasingly, there was little evidence of candidates confusing human resources with other functional areas within a business. Most candidates were able to identify two tasks which fall within the remit of the human resources function. The most common correct answers were recruitment (hiring) and training.

However, identifying two tasks only achieves 2 out of the 4 available marks. The question requires a description i.e. a practical 'how'. So, for the examples given above 'recruitment' (1 mark) by 'interviewing candidates' (1); or 'training' (1) by 'sending employees on a training course' (1 mark) would have achieved full marks.

Sadly, many candidates explained reasons for doing the tasks ('why') rather than giving descriptions of **how** these tasks can be completed, limiting their mark to 2 out of 4.

Question 23

- 23 Explain **two** ways a business that you have researched complies with consumer protection legislation.

Name of business

Activity of business

1. Safe goods

.....

.....

2. Goods as described

.....

.....

Exemplar response:

Name of business: Martin's Toys

Activity of business: Toy retailer

Consumer protection legislation requires shops to only sell goods which are safe (1).

Martin's Toys does this by only selling toys which have the CE safety mark (1)

[4]

Mark scheme guidance

One mark for each correct identification of a legal issue up to a maximum of two legal issues.

One mark for each of two examples/explanations of how achieved.

Accept examples written in the inverse i.e. accept examples of non-compliance.

Example mark can be awarded even if legal issue is not explicitly identified.

Must relate to:

- Consumer Rights Act (Sale & Supply of Goods Act; Supply of Goods and Services Act)
- Consumer Protection Act.

Do **not** award answers which relate to Data Protection Act, Equality Act, Health and Safety at Work Act etc.

If two examples given, check they cover different legal points.

'Good standard' – too vague (**TV**).

Examiner comments

This question tested a candidate's understanding of the law. Answers that discussed good customer service, rather than legal requirements, could not be awarded. In addition, some candidates outlined legal requirements which did not fall under the umbrella of consumer protection legislation. The most common incorrect answers of this type were answers which related to the Data Protection Act and the Health and Safety at Work Act.

Exemplar Candidate Work

Question 23 – low level answer

23 Explain two ways a business that you have researched complies with consumer protection legislation.

Name of business TESCO

Activity of business SUPERMARKET

1. When ~~at~~ customers sign up and make an account with the online shopping service their information is protected and not shared.

2. TESCO will make sure that the goods that are sold are not poisonous and have not been tampered with in order to protect the customers health.

[4]

Commentary

Candidates are invited to explain how a business complies with consumer protection legislation. Consumer protection legislation includes both the Consumer Rights Act (which has recently subsumed the Sale & Supply of Goods Act and the Supply of Goods and Services Act) and the Consumer Protection Act. Candidates can choose any legal principle within these Acts and suggest how the business complies with the legislation.

Unfortunately, this candidate's first response relates to the legislation surrounding data protection rather than consumer protection. The first response does not answer the question and cannot be awarded any marks.

The second response which refers to 'poisonous' and 'protect customers health' was deemed to relate to product safety and as such does come under the umbrella of consumer protection legislation. One mark is awarded for this.

Product safety is the tenet of the Consumer Protection Act (although candidates do not need to know from which Act the legal requirement comes it can aid their understanding). In order to gain the other mark for this response the candidate needed to explain 'how' Tesco ensures this since the question requires candidates to explain 'ways'. Any practical method would have done e.g. checking product seals, spot-checking products on the shelves, being vigilant at the checkout etc.

The candidate scores one of the available four marks.

Exemplar Candidate Work

Question 23 – medium level answer

23 Explain two ways a business that you have researched complies with consumer protection legislation.

Name of business Burt's
 Activity of business Luxury Cris. Manufacture
 1. Firstly, Burt's Comply with ~~Burt's~~ Consumer Protection Act as Burt's products are as described. This means that a customer when buying the product receives the quality and product description as advertised. Regarding Burt's Comply with the Trade Description Act:
 2. Burt's Also Comply as if a faulty batch of products are purchased by a consumer Burt's, is deemed ^{by work} correct will replace the faulty goods within 30 days as the complaint being made therefore being in compliance with Consumer Protection Act. [4]

Commentary

This candidate demonstrates good knowledge of consumer protection legislation. The first response concerns goods being as described; the second response the requirement that faulty goods be replaced. Both of these are valid principles in consumer protection legislation. Each are, therefore, awarded a mark. The candidate even correctly cites the corresponding Acts (although this information is not required on this Specification).

Unfortunately, neither response goes on to explain 'how' the business complies i.e. a way (as per the wording of the question). This is an important learning point for candidates. Given that this is a vocational/technical qualification – a question which asks for 'ways' should be answered in as practical manner as possible.

On this occasion if the candidate had attempted to suggest 'how' they may have realised that choosing a manufacturing business to answer a consumer protection question on is not ideal – a tertiary sector business would be far easier. This does highlight the importance of carefully choosing which business to answer a Section B question about. That said, any practical 'how' would have been awarded e.g. by carrying out quality control checks on the production line or having a helpline for retailers who complain.

The candidate gains two of the available four marks.

Exemplar Candidate Work

Question 23 – high level answer

23 Explain two ways a business that you have researched complies with consumer protection legislation.

Name of business Asda

Activity of business Supermarket selling multicultural ^{food}

1. If the customer buys a pair of shoes at Asda, and find that they have a wrinkle in the shoe and it's the only size, the staff can see if they have any spare in stock and give them.

2. If a fruit juice was ~~not~~ ^{faulty} the customer service team can give them a refund and get their money back.

[4]

Commentary

Despite being similar, both of these responses are correct. The first response relates to a customer's right to a replacement if goods are defective. The second response relates to the customer's right to a refund if goods are defective. The second response also gives the practical detail of 'how' i.e. give their money back.

Three out of four marks were awarded. The 'how' of the first response was deemed a little too vague – how did they check for replacement stock? – using a computer, looking up on a database, searching the warehouse etc – anything practical way would have seen this response gain full marks.

Question 24

24 Analyse **two** ways demographic changes have affected a business that you have researched.

[6]

Name of business

Activity of business

1. **Responses include:**

- birth rate
- ageing population
- change in education levels
- change in income
- shift in profession/occupation groups
- gender (in)balance
- shift in race/ethnic balance
- migration
- change in marital status
- change in size of family.

Exemplar response:

Name of business: Bunting Mobility Ltd
 Activity of business: Mobility aids retailer
 An increase in the number of elderly people in the local area (1) has led to an increase in sales for the shop (1) and this has improved its cash flow position (1).

Mark scheme guidance

One mark for a correct identification up to a maximum of two identifications, plus one mark for each of two explanations and a further one mark for each of two analyses.

In each case, the third mark **must** be analytical.

Accept any type of impact or consequence for analysis, including positives and negatives.

Do **not** accept 'disposable income' or 'social trends' as these are not demographic changes.

Watch out for repetition of demographic change e.g. if both responses relate to, say, society ageing, then the maximum mark would be 5 (please annotate the repeat issue as **REP**).

Demographic **change** required.

Examiner comments

Pleasingly, many candidates understood the meaning of the term 'demographic changes'. Those that understood that the term relates to changes in the population seemed to score highly. Those who confused demographic changes with economic or technological changes etc scored less well. In addition, while some candidates appeared to understand the meaning of the term 'demographic' they failed to indicate a demographic change. Without the 'change' element the candidate was unable to analyse the impact of such changes, limiting their marks.

Exemplar Candidate Work

Question 24 – low level answer

24 Analyse two ways demographic changes have affected a business that you have researched.

[6]

Name of business Oxfam

Activity of business charity against global poverty

1. One demographic change that has affected Oxfam is the income of the communities that support them, this is because if people's disposable income is decreasing they have less money to donate to their charity meaning that Oxfam will lose donations leading to the charity coming to an end.

2. another demographic change that has affected Oxfam is the government and where they choose to build new buildings and what areas they choose to build on. Oxfam's aim will be harder to reach if the government continue to increase the poverty. Oxfam will have to look for more donations otherwise their charity will be outpowered.

Commentary

This is a low level answer because neither of the responses clearly relate to demographic change i.e. change in the characteristics or size of the population. Response two which refers to the government relates to a change in a political factor rather than a demographic one. Response one primarily refers to a change in disposable income which, in accordance with the spec, is a social factor and therefore cannot be awarded.

The response was awarded one mark for a vague reference to a fall in community income levels.

To gain higher marks on this question the candidate needs to clearly refer to demographic change. Changes in birth rate, an ageing population and shifts in gender balance near a business location were common correct answers and proved accessible to candidates.

Exemplar Candidate Work

Question 24 – medium level answer

24 Analyse two ways demographic changes have affected a business that you have researched.

[6]

Name of business ~~Wendy's~~ Coca Cola

Activity of business ~~Soft drink~~ Soft drink company

1. The UK's population is ageing with people living longer, this has affected Coca Cola because the older people get, the more they have to look after themselves. This means watching what they eat and drink. This meant Coca Cola had to create soft drinks with less sugar to make sure the older people can still buy their products.

- Income
- Age
- Race
- Gender
- Sexuality
- Disability

~~2. Another demographic change would be people and their income, this is because Coca Cola's prices have been increasing which means less people would be able to afford their drinks. This affected Coca Cola because less people could buy their drinks.~~

Income would affect Coca Cola because people would only pay for goods they can afford which would affect Coca Cola because they would need to sell their products at a price in which people are willing to pay to keep their sales figures increasing and people still buying.

Commentary

This candidate gains three of the available six marks. All three marks were awarded for the first response. This response is a good one, of the type that examiners hope to see. It begins by clearly citing a demographic change i.e. 'population is ageing' (1 mark for identification). It then provides an explanation of how this impacts on Coca Cola i.e. 'watching what they eat' (1 mark for explanation). It then analyses the impact of this on Coca Cola i.e. 'create soft drinks with less sugar' (1 mark for analysis).

Sadly, the second response does not answer the question set. The question asks for a demographic 'change' and no 'change' is given in this answer.

A useful learning point for all candidates would be to emphasise the difference between a question referring to a 'factor' and a 'change' e.g. in this case analyse two demographic changes as opposed to two demographic factors. This is likely to apply to all facets of the external environment, therefore a question on economic factors (Q32 on this paper) would expect a candidate to simply name a factor e.g. unemployment, but a question on economic change would expect a directional change – e.g. an increase or decrease in unemployment.

Exemplar Candidate Work

Question 24 – high level answer

24 Analyse two ways demographic changes have affected a business that you have researched.

[6]

Name of business Chelsea

Activity of business Football team

1. 25% of people attending football matches are women and it is steadily increasing. This means Chelsea should target women and families more in their advertising campaigns. They could also provide special offers that will entice families to attend more football matches and therefore become loyal supporters of the club.

2. 15% of football supporters are under 13 which demonstrates how more younger people are starting to attend matches. Chelsea can offer cheap deals to encourage more young people to get into football. If younger people decide to keep supporting the club, then in the future they Chelsea will benefit as they have another loyal supporter meaning more revenue.

Commentary

It is debateable whether these answers relate to consumer trends or demographic change. Certainly, these answers could have been better written to clearly pin them to demographic change, nevertheless they were awarded.

Both responses identify (albeit vaguely) and explain (in some detail). Only the second response goes on to analyse. Analysis means a consequence to the business – the analysis must be business-facing i.e. what is the impact on the business? Not the impact on, say, employees or customers of the business. In the second response 'more revenue' was awarded as analysis i.e. an impact on the business.

The candidate gains five of the available six marks.

Question 25

25 Explain how a business that you have researched empowers its employees.

Name of business

Activity of business

Use level of response criteria.

Responses include:

- flat organisational structure
- decentralised organisational structure
- encourage safe failure
- require accountability
- support independence
- encourage flexibility
- allow employees space and freedom
- be positive/constructive.

Exemplar responses:

Name of business: Mechelow Farm

Activity of business: Dairy Farm

At Mechelow farm, labourers are given the freedom to try and solve problems themselves (L1) without the farm manager constantly watching their every move. This encourages the farm labourers (CONT) to use their own initiative without fear of immediate reprisals or criticism (L2).

Name of business: Mechelow Farm

Activity of business: Dairy Farm

Employees at Mechelow farm are encouraged to be flexible (L1), this encourages them to be independent and develops their own self-confidence (L1).

[4]

Mark scheme guidance

Level of response criteria:

Level 2 (3 – 4 marks)

Candidate gives a contextual explanation.

Award:

4 marks for identification plus a detailed and contextual explanation.

3 marks for identification plus a contextual explanation.

Level 1 (1 – 2 marks)

Candidate gives a non-contextual answer.

Award:

2 marks for identification plus non-contextual explanation.

1 mark for identification with no explanation.

An answer which does not state the name of the business = max Level 1.

Empowerment allows and encourages workers to make their own decisions. Answer must be about empowerment. Do **not** award arguments about motivation, training or delegation.

Context **must** be more than the name or type of business.

Examiner comments

Disappointingly answered. This question required candidates to state a way in which a business empowers its workers and then explain how this method actually leads to such empowerment. Empowerment allows and encourages workers to make their own decisions i.e. to work with a certain degree of autonomy. Many of the answers given by candidates related more closely to methods of motivation, training or delegation and were not awardable.

Exemplar Candidate Work

Question 25 – low level answer

25 Explain how a business that you have researched empowers its employees.

Name of business ~~John~~ John Lewis

Activity of business Retailer

At John Lewis they empower their employees by giving them certain levels of responsibilities by not having to watch them. They also guarantee a future with the business this gives ^{the sense of} relief to the employees. They also give bonuses to the successful staff. Also they have a web site which all John Lewis employees can access and get discounts on. [4]

Commentary

It is debatable whether this response is about employee empowerment or motivation. Empowerment allows, encourages employees to be autonomous and gives them the freedom and ability to do so i.e. make their own decisions. Certainly, the last three points of this answer relating to job security, bonuses and discounts are methods of employee motivation – they do not increase the autonomy of the workforce. However, the first point – giving certain levels of responsibility – could be considered a motivating factor and a means of empowerment – it was, therefore, awarded.

The response gained one of the four available marks. To improve this response the candidate needed to do one of two things – either target empowerment rather than motivation – or give a contextual answer about responsibility levels e.g. give an example of a specific responsibility that John Lewis use for empowerment.

Exemplar Candidate Work

Question 25 – medium level answer

25 Explain how a business that you have researched empowers its employees.

Name of business Burts

Activity of business Luxury Crisp Manufacturer

One way Burts empowers its employees is that they use job enrichment. Job enrichment is the delegation of more responsibility therefore the workers feel less worthless and ^{have} more of a purpose. Also, Burts are decentralised meaning that decisions are made at the business not at head office. This means that workers feel they can be more influential on decisions made.

[4]

Commentary

This answer improves as it goes along. There is vague reference to increases in responsibility which in the absence of other comment would have gained a mark. However, the best parts of the answer are a decentralised structure meaning that decisions are not made at head office but rather by the workers. This response clearly relates to empowerment. It is awarded a top Level 1 mark.

To gain higher marks the candidate did not need to show any further knowledge, rather they needed to show understanding in context i.e. Burts crisps.

Exemplar Candidate Work

Question 25 – high level answer

25 Explain how a business that you have researched empowers its employees.

Name of business Timpsons

Activity of business Repair shoes

Timpsons uses a method called 'upside down management' which means that, ~~it~~ the employees are essentially in charge. This is because they get a bonus if ^(CENT) the shop makes a profit, (15% of the profit is shared between the staff) also the company offers them loans ~~to~~ if they get into financial issues, which motivates the staff.

[4]

Commentary

This response begins well, although it does wander into motivational techniques (rather than empowerment techniques) towards the end. Nevertheless, the knowledge of how Timpsons empowers its employees (makes them more autonomous) is clearly shown – it uses 'upside down management' putting the employees in charge of day-to-day decisions. The reference to this 'upside down management' (which is specific to Timpsons) coupled with the reference to '15%' is deemed sufficient to suggest that this answer is contextual i.e. applies specifically to Timpsons. It is awarded a Level 2 mark of 3.

To gain full marks the response needed to show more knowledge of how putting the staff in charge made them more autonomous – a simple reference to decision making, independence or initiative would have sufficed.

Section C

Read the Scenario below. Answer **all** questions in this Section.

Business scenario: *Leisure Magazines Ltd*

Leisure Magazines Ltd is the largest publisher of monthly magazines in the UK. Founded in 1917, the business has built up a considerable amount of knowledge and expertise. As market leader, its magazines are well known and well respected. *Leisure Magazines Ltd* has an enviable reputation in the industry for the standard of its magazine content. The business currently produces 28 different magazines each month, all precision-printed on premium quality paper. Twenty of its titles are general interest magazines, e.g. TV Monthly and Out and About. Eight of its titles are specialist magazines covering traditional sports and hobbies, e.g. bowling, car maintenance and sewing; these target a more mature market. *Leisure Magazines Ltd* does not publish its magazines online.

Printing uses a lot of electricity. Like its competitors, energy bills are one of *Leisure Magazines Ltd's* main operating costs; employees' wages are another. In an effort to keep costs down, the business has resisted pressure to give employees a pay rise for the last three years. *Leisure Magazines Ltd* obtains its revenue from two sources. First, from the sale of its magazines. Second, from the sale of advertising space in the magazines. Businesses are willing to pay over £5000 for a full page colour advertisement in *Leisure Magazines Ltd's* popular general interest magazines.

National figures, however, have shown a decline in total revenue for magazine publishers of 0.5% per year for the last three years. In addition, industry experts predict an even more challenging future as more readers switch from buying printed magazines to reading online versions. For 2017 *Leisure Magazines Ltd* is projecting a net profit of 4.7% of revenue against its target of 5.0%. The benchmark figure for its closest competitor is 3.5%. *Leisure Magazines Ltd's* Income Statement for the last three years is shown in **Fig. 1** below.

Fig. 1: Income Statements for *Leisure Magazines Ltd* for the years ended 31 December 2016 - 2014

| | 2016 | | 2015 | | 2014 | |
|--------------------------|----------|----------|----------|----------|----------|----------|
| | £million | £million | £million | £million | £million | £million |
| Sales Revenue | 16.5 | | 16.9 | | 17.7 | |
| Advertising Revenue | 33.5 | | 35.1 | | 35.3 | |
| Total Revenue | | 50.0 | | 52.0 | | 53.0 |
| Cost of sales | | 21.6 | | 20.3 | | 19.4 |
| Gross Profit | | 28.4 | | 31.7 | | 33.6 |
| Expenses | | 24.1 | | 22.7 | | 22.1 |
| Operating Profit | | 4.3 | | 9.0 | | 11.5 |
| Bank loan interest paid | | 1.1 | | 1.1 | | 1.1 |
| Profit before tax | | 3.2 | | 7.9 | | 10.4 |
| Tax | | 0.6 | | 1.5 | | 2.0 |
| Net Profit | | 2.6 | | 6.4 | | 8.4 |
| Dividends | | 2.5 | | 6.3 | | 8.2 |
| Retained Profit | | 0.1 | | 0.1 | | 0.2 |

The results of recent market research obtained by *Leisure Magazines Ltd* indicate that customers would like it to:

- launch a website and make its magazines available online
- produce more titles; particularly targeting global issues, modern day living and increasingly popular minority sports such as non-league football, hockey and table tennis
- improve its ethical profile.

Questions 26 and 27

All of the questions in Section C should be answered in relation to the business scenario on page 12.

26 Identify the form of business ownership of *Leisure Magazines Ltd*.

Indicative content:

- private limited company.

[1]

27 Using the data in **Fig. 1** and any other relevant information assess the financial performance of *Leisure Magazines Ltd*.

[12]

Use level of response criteria.

Responses include:

- significant amount of profit – even the lowest is several million
- industry total revenue falling 0.5% per annum in recent years
- *Leisure Magazines Ltd*'s total revenue falling by at least 1.5% per annum
- sales revenue and advertising revenue falling
- cost of sales increasing
- gross profit falling
- expenses rising
- amount of tax paid fallen due to fall in operating profit
- net profit falling
- reduced dividends
- retained profits constantly low
- 2017 projected net profit percentage 4.7%
- 2017 net profit percentage target 5%
- competitor net profit percentage benchmark 3.5%
- significant borrowing (£1.1m interest)
- insufficient information on cash flow, assets, liabilities and capital
- cash flow statement and statement of financial position required.

Exemplar response:

e.g. *Leisure Magazines Ltd*'s net profit in 2016 was £2.6 million (L1). The net profit level has been falling for the last three years (L2). If profit levels continue to fall at the same rate *Leisure Magazines Ltd* is likely to make a net loss, and may even lose shareholders (L3).

However, profit projections for this year indicate net profit to be 4.7% (CONT) of revenue. If this is the case then the company will have enough funds to pay dividends to its shareholders and its position may not be as bad as it first appears. In addition, whilst 4.7% is below the company's target, this may be an unrealistic target especially given that the closest competitor's benchmark figure is only 3.5% (L4).

Mark scheme guidance

Question 26:

One mark for a correct identification.

Do **not** award incomplete answers e.g. 'private company', 'private limited' or 'limited company' or 'Ltd'. Please annotate as too vague (TV).

Question 27:**Levels of response****Level 4 (10 – 12 marks)**

Candidate evaluates the financial performance of *Leisure Magazines Ltd*.

Level 3 (7 – 9 marks)

Candidate analyses the financial performance of *Leisure Magazines Ltd*.

Level 2 (4 – 6 marks)

Candidate explains *Leisure Magazines Ltd's* financial performance issue(s).

Level 1 (1 – 3 marks)

Candidate identifies *Leisure Magazines Ltd's* financial performance issue(s).

Do **not** award causes/reasons or solutions/contingencies (please annotate **NAQ**). The question solely relates to data response.

NB The question only relates to **financial** performance, do **not** award arguments relating to other types of performance.

L1 – states from information given e.g. sales revenue in 2015 was £16.9 million.

Examiner comments

Question 26 – The correct answer 'private limited company' was given by the majority of candidates. A significant minority, however, suggested that *Leisure Magazines Ltd* was a public limited company. Candidates need to be clear that the term 'Ltd' at the end of the company name always refers to a private limited company (and that 'plc' at the end of a company's name refer to a public limited company).

Question 27 – This question is a data response question which required the candidate to consider *Leisure Magazines Ltd's* income statements for the previous three years to assess the company's financial performance. The question did not require candidates to suggest the cause of any issues identified or, indeed, any solutions to any issues identified. Instead, candidates needed to judge the seriousness (or otherwise) of the company's financial position. This could be done by comparing 2016 performance with previous years or by extrapolation of trends into the future. Either approach is equally valid.

For a Level 1 mark candidates had to name an appropriate figure e.g. 'net profit in 2014 was £8.4m'. To gain a Level 2 mark candidates needed to have identified data trends e.g. 'revenue has fallen'; those who were able to judge the seriousness (or otherwise) of a specific piece of data e.g. the seriousness of falling profit, gained a Level 3 mark. Those who were able to give an overall judgement of the seriousness (or otherwise) of the company's financial position e.g. weighing up the seriousness of falling profit against its current targets or competitor performance, achieved a Level 4 mark.

Those candidates who confused profit and sales revenue, or assumed that the terms were interchangeable did less well on this question. As did those candidates who confused profit/loss data with cashflow.

Exemplar Candidate Work

Question 27 – low level answer

27 Using the data in Fig. 1 and any other relevant information assess the financial performance of Leisure Magazines Ltd.

[12]

Leisure magazines have been underperforming in terms of their financial performance. One way in which Leisure Magazine has not been making any progress is due to the decrease in revenue. It was noted that in 2014 Leisure Magazine made a sales revenue of £17.7 million and that year. However, by the year 2016 it dropped by £1.2 million. This is because they are not publishing or selling enough magazines to employ customers as they don't have enough money to provide high standard magazine, as they spend majority of their money in paying for electricity bills, printing etc. This will lead to Leisure Magazine's sales revenue to decrease ^{even more} if they fail to keep the quality and produce enough magazines, as a result leading them to have a negative cash outflow.

Also, the advertising ^{revenue} price has increased each year because of the overall enviable reputation the magazine company has. This will lead to ^{employees} ~~customers~~ being consistently refused to have a pay rise due to the amount of

money being spent on advertising. This will lead to employees being ^{less} motivated as they don't really are working hard for a small amount of money for small amount of money.

In conclusion, Leisure Magazine need to be able to have a good financial records by knowing where and how to cut cost so that it doesn't result in them being debt or not making enough revenue at all.

Commentary

This question is an extended response question that requires the candidate to assess the data and information provided. Candidates need to be encouraged to look for trends or other important factors on which judgement can be made. It should be noted that such data response questions do not ask the candidate to postulate the reasons behind the data, rather to comment on the significance of what they see.

This response begins well. The candidate shows clear understanding that the revenue is decreasing. Identifying a trend (rather than just quoting the figures given) shows understanding and is, therefore, a Level 2 response. This candidate achieves Level 2 at the end of the second sentence. The sentences that follow then quote some figures – these would be knowledge-based Level 1 type responses – so do not add to the marks awarded. Towards the end of the paragraph the candidate wanders into explaining why revenue might have fallen, this is not what the question asks for. There is also some confusion at the end of the first paragraph relating to negative cash outflow. It may be that the candidate means negative net cashflow (which would certainly fit with their argument) but since this is not what they say, it cannot be awarded.

There is more significant confusion in the second paragraph when the candidate refers to advertising revenue as increasing. The data shows that advertising revenue is falling. The candidate appears to have assumed that advertising is an expense, but this would not make sense here. No marks can be awarded for this paragraph.

It is pleasing to see an attempt at a conclusion but sadly this does target the question. The conclusion examiners require is a judgement about the financial performance of Leisure Magazines Ltd, not a general summary of the importance of good financial records.

This response was awarded a Level 2 mark of 4, for identifying the revenue trend. Further level 2 marks could have been achieved if they had correctly identified the trends in advertising revenue. However, it would have been better to concentrate on a different facet of the data e.g. trends in costs or trends in profits.

Exemplar Candidate Work

Question 27 – medium level answer

27 Using the data in Fig. 1 and any other relevant information assess the financial performance of Leisure Magazines Ltd.

[12]

Plan - intro - decrease in revenue increase in cost.
 core - £1.2m decrease → 2016 sales £1.8m decrease → advert 2016.
 not hitting 5% target by 3% cost of sales £2.2m
 Got a bank loan Profit only £0.1m 2016 2014 → £0.2m

By looking at the information given in Fig. 1 it is clear to see that Leisure Magazines Ltd. is slowly beginning to go downhill with its financial performance which is shown in numerous ways, the most obvious being the decrease in sales and increase in costs.

From looking at Fig. 1, I noticed that from 2014 to 2016 there was a £1.2 million decrease in sales revenue. In addition to this, there was also a £1.8 million decrease in advertising revenues. This could be for various reasons, however, the one that stood out the most to me was because people wanted to read online magazines. Therefore, the sales decreased because more people were doing this and the advertising revenue decreased as companies were beginning to realise they would get more publicity advertising online than they would through a ~~paper~~ magazine.

Another thing which I noticed with Leisure Magazine Ltd's financial performance was that they weren't

...hitting their 5% net profit by 0.3%, showing that they have begun to underperform. However, their nearest competition was only hitting 3.5%. I also noticed that the company have taken out a bank loan and although they are keeping on top of it, it is becoming evident that the company are losing profit as in 2014 their overall profit was £0.2 million and now in 2016 it is £0.1 million.

Commentary

This response shows an extremely good grasp of the data and information provided. The candidate is able to outline the trends in all major parameters including sales revenue, advertising revenue, costs and profits. As trends show understanding they are awarded Level 2 marks. Sadly, this answer does not include any analysis and so the maximum it can be awarded is Level 2.

Working through this annotated answer can provide teachers and candidates with some useful pointers. For example, the beginning of the first sentence is saying the 'financial performance' is going downhill is 'too vague' – examiners need to know what aspect of financial performance is going downhill e.g. revenue, cost of sales, expenses, gross profit, net profit, retained profit, dividends, cashflow etc?

By the end of the sentence there are two valid trends that can be awarded – 'decrease in sales' and 'increase in costs'. Trends are always awarded as Level 2 because they show understanding. In this case the 'increase in costs' was awarded its Level 2 at the end of this paragraph as it does not feature again in this candidate's response. The decrease in sales was repetition because there is a more detailed consideration of revenue (split into sales revenue and advertising revenue) in the next paragraph. By delaying the award of the revenue trend until the next paragraph the examiner is able to give two further Level 2 awards – one for decrease in sales revenue and one for decrease in advertising revenue.

The next part of the answer attempts to suggest the cause of the trends – as this is a data response question asking the candidate only to assess the financial performance of the business (and not the reasons behind this financial performance). This part of the answer cannot be awarded any marks.

Towards the end of the answer the candidate comments on the business not quite hitting its net profit target (more Level 2). The candidate then goes on to point out that is better than the nearest competitor. If the candidate had explained the implication of this they would have gained analytical marks, moving the response to Level 3. A simple comment such as 'missing the 5% net profit target by 0.3% is not of significant concern given that the company's performance is still significantly above that of its nearest competitor' would have sufficed to move the answer to Level 3.

Finally, the end of the answer correctly comments on the company's falling profits, another Level 2 trend.

The response was awarded a top Level 2 mark of six.

Exemplar Candidate Work

Question 27 – high level answer

27 Using the data in Fig. 1 and any other relevant information assess the financial performance of Leisure Magazines Ltd.

[12]

Figure 1 shows that in 2014 Leisure Magazines Ltd had a total revenue of £53 million. In 2015 Leisure Magazines Ltd had a total revenue of £52 million. Then in 2016 Leisure Magazines Ltd had a total revenue of £50 million. From this we see that from 2014 to 2015 there was a decrease in total revenue of £1 million and from 2015 to 2016 there was also a decrease of £2 million. This shows that in the last three years Leisure Magazine Ltd has had a decrease in their total revenue of £3 million. This isn't good for Leisure Magazine as this gives the competitor opportunity to catch up to Leisure Magazine which would mean that they wouldn't be the largest publisher anymore if their revenue keeps declining. As we move down to the net profit of the income statements we see that

in 2014 Leisure Magazine made a Net profit of £8.4 million, then in 2015 they made a Net profit of £6.4 million. Finally in 2016 they had a Net profit of £2.6 million. Again we see a decrease from 2014 to 2015 of £2 million and from 2015 to 2016 a decrease in Net profit of £3.8 million. So over three years there Net profit decrease by £5.8 million. At the end of the income statements we have retained

ADDITIONAL ANSWER SPACE

If additional space is required, you should use the following lined page(s). The question number(s) must be clearly shown in the margin(s).

27 profit shows us that there was a decline in retained profit over the three year period. As seen in 2014 there retained profit was ~~£200 thousand~~ £200 thousand in 2015 the retained profit was £100 thousand and in 2016 is remained the same as 2015. Overall the income statement shows that over a three year period they declined in many areas such as their total revenue, Net profit and retained profit. From this information Leisure Magazines Ltd should consider making changes as if their finances keep declining they may have to close down.

Commentary

This response begins by stating pertinent revenue figures. Such identifications achieve Level 1. In the fourth sentence the candidate outlines that total revenue is decreasing; thus moving the response to Level 2. The significance of this trend is then analysed i.e. 'this isn't good ... gives the competitor opportunity to catch up ... wouldn't be the largest publisher anymore ... revenue keeps declining'. Analysis moves this response to Level 3.

The response then turns to pertinent net profit figures (Level 1) and outlines the trend in net profit i.e. decreasing (Level 2). Similarly with retained profit.

The final paragraph of the response attempts to evaluate the firm's overall financial performance. the candidate concludes that the business has seen a decline in revenue, net profit and retained profit which were it to continue could lead to the closure of the company. Since the candidate has already reached Level 3 the response can now be moved on to Level 4. The evaluative comment is generic rather than specific i.e. falling revenue and profits could lead to any business closing down. The response is awarded 10 of the available 12 marks.

In order to achieve an even higher mark the candidate needed to give an evaluative conclusion that was specific to Leisure Magazines Ltd i.e. the candidate needed to give a contextual judgement. The simple addition of a comment such as the falling revenue and profits may lead to them losing their position as market leader would have sufficed to make this evaluation contextual, since the argument about being market leader applies specifically to Leisure Magazines Ltd as they are currently market leaders.

Question 28

- 28 Conduct a SWOT analysis for *Leisure Magazines Ltd* by inserting **one** appropriate factor into each box.

| Strength | Weakness |
|-------------|----------|
| | |
| Opportunity | Threat |
| | |

[4]

Responses include:

- strength e.g. market knowledge, expertise, well established, well known, well respected, good brand, market leader, largest magazine publisher, enviable reputation, popular, net profit percentage better than competitor's.
- weakness e.g. failing to meet profit objective, old fashioned, no website, not online, falling profit, falling revenue, increasing expenses, cost of change in strategy (£40 m), need external finance.
- opportunity e.g. technological trends e.g. increased use of the Internet; social trends e.g. growing popularity of minority sports, healthy lifestyles, interest in global issues; digital age e.g. mobile technologies, tablets, e-readers; increase in ethical consumerism.
- threat e.g. social factors, digital readership, national readership decline, economic factors, competitor activity, legal factors, political factors, environmental factors.

Mark scheme guidance

Up to four marks.

Strengths and weaknesses **must** be internal. Opportunities and threats **must** be external.

Common errors:

Opportunity: 'publish online' (0) (this is an internal decision). Threat: 'falling profits' (0) (this is a weakness).

Examiner comments

Most candidates were able to correctly suggest a strength and a weakness of the organisation, scoring 2 of the available 4 marks. Correctly identifying an opportunity and a threat posed a significantly greater challenge. Candidates need to understand that in a SWOT analysis the terms 'opportunity' and 'threat' have specific meanings i.e. they refer to changes in the external environment of an organisation which are, therefore, out of the business' control. Hence, candidates who suggested that *Leisure Magazines Ltd* had the opportunity to produce magazines online could not be awarded (as this is an internal decision). However, those candidates who correctly identified that there has been an increase in society's use of the internet were awarded (as this is a change in an external factor).

Question 29

29 Evaluate likely consequences to *Leisure Magazines Ltd* if it does **not** listen to its customers.

[12]

... Use level of response criteria.

Responses include:

- | | | |
|-----|--|---|
| ... | • loss of customers | • competitor magazines may become more successful |
| ... | • unlikely to enter new markets | • customers likely to use competitor websites |
| ... | • market saturation | • reduced advertising revenue |
| ... | • falling sales/readership | • de-motivated employees |
| ... | • reduced revenue | • loss of competitive advantage |
| ... | • reduced profit | • loss of market share |
| ... | • make a loss | • lose position as market leader |
| ... | • weaker cash flow position | • go out of business/close down |
| ... | • fewer potential investors | • no need to alter strategy |
| ... | • financial difficulties | • no need to restructure the company |
| ... | • poor reputation | • no resistance to change to overcome |
| ... | • fall in customer satisfaction | • no change management process to monitor |
| ... | • bad publicity | • concentrate on markets it knows well |
| ... | • protests/boycotts | • less uncertainty |
| ... | • effect on corporate image e.g. CSR profile, old fashioned, out-of-date, out of touch with readership | • save time (a change of strategy takes time to plan) |
| ... | • lose out on further opportunities e.g. digital marketing | • save money (a change of strategy is expensive (£40 m)). |
| ... | • lose out to the competition | |

Exemplar response:

... e.g. If *Leisure Magazines Ltd* does not listen to its customers they may go elsewhere (L1) to find digital content provided by a competitor (L2). This would mean that the company's market share would fall (L3).

... Another consequence of not listening to its customers is that the company may gain a poor reputation (L1). This may lead to some customers boycotting the company (L2) reducing sales revenue and negatively impacting on cash flow (L3).

... The greatest consequence to *Leisure Magazines Ltd* of not listening to its customers is likely to be losing customers who require digital content. This is because whilst many of *Leisure Magazines Ltd's* competitors may not choose to focus on ethical behaviour, most are likely to follow the social trend towards increased Internet use and mobile access via tablets. Industry experts suggest this is the main challenge for publishing houses, a challenge which might prove too much for *Leisure Magazines Ltd* if it does not embrace the opportunity (L4).

Mark scheme guidance

Levels of response

Level 4 (10 – 12 marks)

Candidate evaluates likely consequences to *Leisure Magazines Ltd* if it does not listen to its customers.

Level 3 (7 – 9 marks)

Candidate analyses likely consequence(s) to *Leisure Magazines Ltd* if it does not listen to its customers.

Level 2 (4 – 6 marks)

Candidate explains likely consequence(s) to *Leisure Magazines Ltd* if it does not listen to its customers.

Level 1 (1 – 3 marks)

Candidate identifies likely consequence(s) to a business of not listening to its customers.

Consequences **must** be on the business, can be positive or negative.

L4 – Candidates must **choose** a consequence and justify why it is, say, the biggest/most serious/long-term consequence, supported by previous analysis. Award 10 marks for a generic argument. Award 11 marks for an argument with context. Award 12 marks for a detailed, specific, contextual argument.

Examiner comments

The majority of candidates were able to identify several consequences to a business of not listening to its customers. To score highly on this question the candidate needed to analyse these consequences i.e. suggest the impact of these consequences on the business. For example, 'loss of customers' could lead to a 'fall in profit' or a 'loss of market share'; such analytical responses gained a Level 3 mark. To achieve a Level 4 mark candidates needed to have analysed the various consequences they suggested and select one with reasoned justification. The selection could be on various grounds and, potentially, any consequence could be chosen if justified. So, for example, arguments of the most serious consequence, the most likely consequence or the consequence with the greatest long-term impact were all equally acceptable and were awarded at Level 4.

Question 30

- 30 Advise the directors of *Leisure Magazines Ltd* how it could improve its ethical profile. Justify your answer.

[12]

... Use level of response criteria.

Responses include:

- | | | |
|-----|--|--|
| ... | • be environmentally friendly | • no animal cruelty in supply chain |
| ... | • use recycled paper | • buy fair trade products where possible |
| ... | • use email where possible | • pay fair prices to suppliers |
| ... | • minimise unnecessary printing | • treat suppliers well |
| ... | • tree planting scheme | • buy raw materials from local businesses e.g. stationery |
| ... | • use green/renewable energy | • charge fair prices |
| ... | • minimise use of fossil fuels | • donate percentage of profit/revenue to charity |
| ... | • turn off lights/machines when not in use | • raise money for charity |
| ... | • reduce energy consumption e.g. heat and light | • support local community projects |
| ... | • install solar panels on factory roof | • do not exploit the workforce |
| ... | • improve energy efficiency | • provide good terms of employment |
| ... | • reduce waste | • treat workers fairly/well |
| ... | • recycle waste | • ensure workforce is balanced e.g. gender, age etc |
| ... | • reuse resources | • give employees fixed hour rather than zero hour contracts |
| ... | • reduce carbon emissions | • pay employees a fair wage |
| ... | • become carbon neutral | • pay employees more than the legal minimum/living wage |
| ... | • minimise the need for travel | • give employees a pay rise. |
| ... | • use environmentally friendly transport e.g. bio-fuels | |
| ... | • only deal with ethical suppliers | |
| ... | • no child labour in supply chain | |

Exemplar response:

One way to improve the ethical profile of the company is to reduce energy consumption (L1). This can be achieved by buying energy efficient machinery, turning down the heating thermostat and fitting lighting sensor to turn off the lights when not in use (L2). This would also reduce utility costs and improve the company's cash flow position (L3).

© OCR Another way *Leisure Magazines Ltd* could improve its ethical profile is by using recycled paper for its magazines (L1). This would mean that fewer trees are cut down, benefitting the natural environment (L2).

Recycled paper is also likely to be cheaper than the paper the company currently buys, reducing costs and increasing profit (L3).

However, the company has an excellent reputation for its high quality print and the use of recycled paper might impact on this reputation. Instead, it would be better to concentrate on ways to improve its ethical profile which do not affect the quality of its output. Reducing energy consumption will contribute to the company's ethical profile without compromising the quality of its output. This seems a more appropriate approach for *Leisure Magazines Ltd*. It could even consider buying green energy from an eco-friendly supplier (L4).

Mark scheme guidance

Levels of response

Level 4 (10 – 12 marks)

Candidate evaluates how *Leisure Magazines Ltd* should improve its ethical profile.

Level 3 (7 – 9 marks)

Candidate analyses how *Leisure Magazines Ltd* could improve its ethical profile.

Level 2 (4 – 6 marks)

Candidate explains how *Leisure Magazines Ltd* could improve its ethical profile.

Level 1 (1 – 3 marks)

Candidate identifies how a business could improve its ethical profile.

L4 evaluation – An overall conclusion as to why the method(s) recommended are the best to use. Award 10 marks for a non-contextual justification of the methods chosen. Award 11 marks for a contextual justification of the method(s) chosen. Award 12 marks for a detailed, contextual justification of the method(s) chosen.

Do **not** award legal requirements e.g. Data protection.

Do **not** award 'treat workers equally' as that is a legal issue, rather than an ethical one.

Examiner comments

Many candidates were able to make some sensible and interesting suggestions on how the business could improve its ethical profile. Those which were analysed achieved a Level 3 mark. To achieve a Level 4 mark the candidate needed to have justified why their recommendations were the most suitable ones for the company to choose.

Those candidates who scored poorly on this question appeared to fall into two categories. Firstly, those who confused 'ethical' with 'legal', making suggestions such as 'avoid discrimination' which were not awardable. Secondly, those who confused 'ethical' with 'ethnic', making suggestions such as 'write a magazine for eastern Europeans', which were not awardable.

Exemplar Candidate Work

Question 30 – low level answer

- 30 Advise the directors of *Leisure Magazines Ltd* how it could improve its ethical profile. Justify your answer.

[12]

The directors could improve its ethical profile, by always treating their employees fairly and listening to them if a problem occurs. By doing so ~~staff~~ employees will be happy, which ~~then~~ then improve their enthusiasm to want to work more efficiently, knowing they matter. Whereas if they weren't treated fairly they may not want to work their and may not be happy, equalling in a bad working environment. ~~Another way to~~ ~~improve the ethical profile is to~~

Also by ensuring employees have a good relationship with managers.

Another way of having a ethical profile, is to treat customer right, which could be good products, worth the money. This then heightens the chance of them coming back, and gives the business a good reputation as they treat everyone right and are ethical.

Commentary

'Fairness' is an ethical concept. The candidate identifies that the business could treat its employees fairly (Level 1) and explains how the employees might react with enthusiasm and want to work more efficiently (Level 2).

The second paragraph is about treating the customer 'right'. 'Right' or 'correctly' is deemed to be a legal requirement and so could not be awarded.

The response is awarded a Level 2 mark of four. The candidate would have gained more marks if they had made analytical comment in their first paragraph. Analysis is a consequence or impact to the business. In this case what would be the benefit or drawback of treating the employees fairly and listening to their concerns? A benefit might be increased output or more profit. A drawback could be that it takes up management time or that it would require management retraining. Any such analytical comment would have pushed the response into Level 3 with a minimum mark of seven.

Exemplar Candidate Work

Question 30 – medium level answer

30 Advise the directors of *Leisure Magazines Ltd* how it could improve its ethical profile. Justify your answer.

[12]

Leisure Magazines are one of the best selling monthly magazines in the UK. However, by improving its ethical profile, the business could be made even more reputable.

One way the ethical profile could be improved is by increasing the payment of ~~wages~~ its employees.

At the moment, Leisure Magazine have resisted pressure for the past 3 years to increase the employees wage. If this were to continue, it could result in employees quitting or going on strike, which, if publicised, could result in negative media attention for the magazine. As a result of this, less people might buy Leisure Magazine which is bad as it's ^{one of} the businesses main sources of revenue.

To avoid this, ~~they~~ Leisure Magazine could increase employees wages which would not only avoid negative press but also increase employee motivation in the work place.

Secondly, the magazine currently prints each magazine on premium quality paper. However, the

ethical profile of ~~the~~ Leisure Magazine could be improved if they printed the magazine on recycled paper instead. This would ~~also~~ protect the environment whilst also cutting costs for the business as printing on premium quality paper in colour is very expensive.

Overall, improving the ethical profile of Leisure Magazine would not only make the business look good, it would also attract new customers to the magazine due to its ^{positive} ethical reputation. As a result of this, more magazines would be sold and meaning the sales revenue and profit of the business would go up.

Commentary

This answer contains at least two suggestions of how the business could improve its ethical profile – issue a pay rise and use recycled paper. Each is explained – a good Level 2 response. There is some attempt to analyse in the final paragraph but it is a discussion of the other overall benefits of being ethical (rather than an analysis of the specific benefits or drawbacks of using a particular method to improve the ethical profile of the business), it therefore cannot be awarded.

The response was awarded a top Level 2 mark of six.

In order to move this response to Level 3 an analytical comment relating to the particular methods suggested needs to have been given. For example, in the paragraph relating to giving a pay rise the candidate could have referred to increased employee motivation leading to improved productivity (a beneficial impact) or increased wage costs affecting cash flow (a negative impact). Many other suggestions could have been made, any such would be awarded as long as they are impacts on the business of giving a pay rise to its employees. When discussing the use of recycled paper, the candidate does suggest that the premium quality paper is very expensive. A simple extension of this comment to say that using recycled paper would lower costs would suffice as a beneficial impact – thus gaining Level 3 analysis marks. Likewise, a negative impact could be that sales revenue may fall because the poorer paper quality may reduce customer demand.

Exemplar Candidate Work

Question 30 – high level answer

30 Advise the directors of *Leisure Magazines Ltd* how it could improve its ethical profile. Justify your answer.

[12]

One way that the directors of Leisure Magazines could improve its ethical profile is by using ~~at~~ Fairtrade paper to print on the business. This could limit the impacts of deforestation by replanting a certain number of trees for every tree cut down in the production process. By making the business sustainable and more ethical, customers are more likely to buy the eth. Magazines that harm the environment the least. Meaning that the customer base is retained and reputation is also maintained. However a negative of doing this as ethically sourcing and producing products means incurring increased costs possibly leading to a decrease in profits. Another strategy the directors could use to improve the ethical profile is to pay workers living wage. This means that the company is seen to be providing employees with sufficient provision to live their life. As a by providing employees with an increased wage to living wage workers become more motivated and the pressure from stressors goes down. A more motivated workforce will lead to

increased productivity which in turn leads to increased quality. However, by providing workers with a living wage operating costs increase dramatically meaning a cut in profit.

~~In conclusion, the advice I would give is to create a campaign where a contribution from each of the sales of Magazine~~

~~Another strategy would be to create a website where Magazine could be stored online and sold. Meaning this idea~~

Another strategy would be to create a website where the Magazine could be sold. By doing this the ethical profile is improved as the company is contributing less to deforestation by using less paper. However the business

Commentary

This is a good response with three clear suggestions of how the business could improve its ethical profile.

To begin with the candidates suggest using fair trade paper (Level 1). The response explains why this is ethical i.e. limits deforestation (Level 2). The candidate then analyses the benefits of this suggestion i.e. retained customer base and reputation. In addition, they analyse the drawbacks as well i.e. increased costs and decreased profit. Any one of these four analytical points is sufficient to take the answer to Level 3.

Next the candidate suggests that the company should pay its workers the living wage (Level 1). The link to business ethics is explained i.e. sufficient provision to live their life (Level 2). The candidate then analyses the benefits of this suggestion i.e. increased productivity or increased quality. Furthermore, they analyse the drawbacks as well i.e. dramatically increased costs, cutting profit. All of these comments are valid and analytical, and thus achieve Level 3.

Finally the candidate explains that making the magazines available online would reduce the consumption of paper, further limiting deforestation. This is a Level 2 response, as the consequences to the business of doing this are not developed.

The response is awarded a top Level 3 mark of nine. In order to move into Level 4 the candidate needs to provide some type of justification for their suggestions. The most straightforward way to do this is by writing a conclusion. There are many forms the justification could take. Perhaps the easiest would be to suggest which of the three suggestions given would be the best for the business to take and why. There is no right or wrong answer, any of the three suggestions could be chosen as long as a valid argument is given. To achieve full marks the argument chosen must be a contextual one e.g. relate specifically to Leisure Magazines Ltd, its industry or the situation it currently finds itself in.

Question 31(a)(i)

31 The directors of *Leisure Magazines Ltd* have voted to change its business strategy to try and meet the needs of its customers, as identified in the recent market research. The cost of this change in strategy, which includes the cost of an additional printing machine, is estimated to be £40 million. The business will require external finance and a detailed business plan.

(a) (i) Identify one external source of finance which would be **appropriate** to use to fund this change of strategy. Give a reason for your choice.

Appropriate external source of finance

Reason

Indicative content:

- loan (1) e.g. medium/long term, interest rate can be fixed, pay in instalments, easier to budget
- re-mortgage (1) e.g. long term, lower interest rate than unsecured loans, pay in instalments, easier to budget
- venture capitalist (1) e.g. advice, expertise, no interest charge
- new investor (1) e.g. no interest charge, advice, expertise
- crowd funding (1) e.g. marketing benefits
- grant (1) e.g. does not need to be repaid, no monthly payments, no loss of control
- funding circle/peer to peer lending (1) e.g. low interest rates
- gifts (1) e.g. do not have to be repaid, no monthly payments, no loss of control.

[2]

Exemplar response:

One appropriate source of finance would be a bank loan (1) because it can be paid back over a long period of time (1).

Mark scheme guidance

One mark for a correct identification plus one mark for a valid reason.

NB This question is about **appropriate** sources of finance (not any source that has an advantage).

Source of finance **must** be external. Do **not** award internal sources.

Do **not** award 'shares/shareholders' as these could be internal. Response must clearly indicate a new investor/shareholder. Please annotate 'sell shares' as too vague (**TV**).

Do **not** award arguments relating to 'easy to get', 'quick to obtain', 'likely to obtain'.

Do **not** award 'large sums available' or 'can get enough money' as that is the question.

Source of finance required for explanation marks to be awarded.

Question 31(a)(ii)

- (ii) Identify one external source of finance which would be **inappropriate** to use to fund this change of strategy. Give a reason for your choice.

Inappropriate external source of finance

Reason

Indicative content:

- overdraft (1) e.g. short term, insufficient amount, high interest rate, expensive
- hire purchase (1) e.g. can only be used to obtain print machine and not for the whole project
- credit card (1) e.g. short term, insufficient amount
- trade credit (1) e.g. short term, insufficient amount
- mortgage (1) e.g. only available for property/not for machinery etc.

[2]

Exemplar response:

One inappropriate method of finance would be an overdraft (1) because the interest rate would be very high (1).

Mark scheme guidance

One mark for a correct identification plus one mark for a valid reason.

NB This question is about **inappropriate** sources of finance (not any source that has a disadvantage).

Source of finance **must** be external. Do **not** award internal sources.

Source of finance required for explanation marks to be awarded.

Examiner comments

Question 31(a) – Both parts of this question were generally well answered. Pleasingly, most candidates were able to suggest a source of finance which was appropriate and give a reason for it being appropriate. Likewise, for the inappropriate source. The most common correct answers for an appropriate source was a 'bank loan' with reasoning that it could be 'paid back in monthly instalments'. The most common correct answer for an inappropriate source was an 'overdraft' with reasoning that it was a 'short term source of finance' or 'incurred high interest rates' – either reason being equally acceptable. Those candidates who did less well appeared to identify any source of finance with an advantage/disadvantage – rather than select one which was appropriate/inappropriate.

Question 32

32 Identify and explain **one** economic factor which might affect the future success of *Leisure Magazines Ltd.*

Economic factor

Indicative content:

- interest rates
- exchange rates
- inflation
- employment/unemployment
- taxation
- recession/boom.

[3]

Exemplar response:

Interest rates (1) might affect the future success of the company. If interest rates increase then the cost of borrowing will increase (1) increasing the company's fixed costs (1).

Mark scheme guidance

One mark for a correct identification plus up to two marks for explanation.

Factor required for explanation marks to be awarded.

Annotate counter arguments as repetition (**REP**). e.g. Interests rates (1) may go up making borrowing dearer (1) or down making borrowing cheaper (**REP**).

Do **not** award 'Brexit' as this is a political factor.

Accept 'disposable income'.

Examiner comments

This question revealed a general lack of understanding by candidates as to the meaning of the term 'economic'. Incorrect answers were numerous – with many suggesting social factors, technological factors or legal factors. More understandably, some candidates suggested political factors e.g. a change in government. There was also evidence that some candidates took 'economic factor' to mean a factor which reduces costs (in the common parlance of the word 'economising') and suggested answers to do with costs of raw materials, utility bills or wage rises.

In accordance with the Specification for this unit (TC 6.1), candidates need to understand the potential impact of the following five economic factors on a business: interest rates, exchange rates, inflation, unemployment and taxation.



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