

Cambridge TECHNICALS LEVEL 3

BUSINESS

Cambridge
TECHNICALS
2016

Feedback on the January 2018 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 January 2018 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 22, 25, 27 and 30.

The marking guidance and the examiner's comments are taken 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/Modules/PastPapers/Pages/PastPapers.aspx?menuindex=97&menuid=250>

OCR
Oxford Cambridge and RSA

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

Unit 1: The business environment

Tuesday 9 January 2018 – Morning
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.

FOR EXAMINER USE ONLY

Section No.	Mark
Section A: 1-22	20
Section B: 21	12
22	14
23	14
24	16
25	14
Section C: 26	12
27	11
28	112
29	16
30	112
31	12
32	112
Total	190

INFORMATION

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

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Unit 1: The business environment
Level 3 Cambridge Technical Certificate/Diploma in Business
05834 - 05878

Mark Scheme for January 2018

Oxford Cambridge and RSA Examinations

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Level 3 Cambridge Technicals Certificates in Business 05834, 05835
Level 3 Cambridge Technicals Diplomas in Business 05836, 05837, 05878

OCR Report to Centres January 2018

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.

Learners should refer to this pre-release material to answer questions in the question paper.

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

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

Unit 1: The business environment

INSERT

Tuesday 9 January 2018 – Morning

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 4 pages. Any blank pages are indicated.

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GENERAL EXAMINER COMMENTS ON THE PAPER

Examiners have been pleased to see some exceptionally good papers this session. Equally, however, there have been some very weak scripts seen, that seem to show inadequate preparation by candidates.

Candidates who did well demonstrated five particular strengths:

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

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, for example 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 an appropriate business to answer each of the five questions. Candidates should be encouraged to vary the business 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 based on the same business appeared to do less well. Whilst visits to businesses are of course very valuable, it should be remembered that some other types of business not visited can be adequately studied through desk research.

Section C contained three high-tariff extended response questions. These questions are level- of-response marked. 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 revenue, costs, profits, cash flow, break-even, improved decision-making, customer loyalty and reputation. In addition to analysis, an evaluative response must contain a reasoned decision i.e. a 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.

Areas which caused most problems on this paper were confusion over private/public/third sector (question 1) and confusion over primary/secondary/tertiary organisations (question 11); SWOT analysis 'Opportunity' (question 22) and venture capital (question 30). On the other hand, question 23 relating to tall hierarchical structure, question 24 relating to advances in technology and question 32 requiring recommendations on how to improve business performance, were extremely well answered.

The ability of candidates to answer questions requiring numerical skills, both in the multiple choice section (questions 6 and 12) and Section C (question 29b), varied significantly. Centres are advised to give their candidates a great deal of practice at answering both calculation and numerical interpretation questions.

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** the 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 an organisation that operates in the public sector?

(a) A charity shop

(b) A clothing manufacturer

(c) A local council

(d) A restaurant

[1]

2 A public limited company:

(a) has unlimited liability

(b) must hold an Annual General Meeting (AGM)

(c) pays income tax

(d) requires a deed of partnership

[1]

3 The human resources function of a large organisation is **most** likely to support the finance function by:

(a) purchasing a new accounts package

(b) recruiting an additional employee

(c) updating its supplier database

(d) using social media to encourage more sales

[1]

Mark scheme guidance

One mark for each correct answer.

Examiner comments

The questions which appeared to cause most difficulty in this section were 1, 11, 12 and 15.

Question 1 – This question tested candidate understanding of public sector organisations. The most common incorrect answer was 'a charity shop'. This indicates confusion over the public and third sectors.

Questions 4, 5 and 6

4 A manufacturer is likely to need to obtain planning permission before:

- (a) building an extension at the rear of the building
- (b) creating a business plan to grow the business
- (c) setting its sales objectives for the coming year
- (d) sponsoring a local youth football team

[1]

5 All UK businesses are affected by changes in external factors.

Which of the following would 'a change in cultural beliefs' be an example of?

- (a) A legal factor
- (b) A social factor
- (c) An economic factor
- (d) An ethical factor

[1]

6 A new business predicts that it will be able to make and sell the following in the coming year:

Item	Quantity	Price
Large greetings cards	15 000	£2.40 each
Small greetings cards	26 000	£1.25 each
Gift tags (pack of 6)	11 000	£1.90 per pack

If the costs for the business total £96 000, the business will:

- (a) have a margin of safety of £6600
- (b) make a loss of £6600
- (c) make a profit of £6600
- (d) make a revenue of £6600

[1]

Mark scheme guidance

One mark for each correct answer.

Questions 7, 8, 9 and 10

- 7 Which of the following is **not** an example of a financial objective for a sole trader?
- (a) To break even
- (b) To make a profit
- (c) To pursue own interests
- (d) To reduce variable costs
- [1]
- 8 The liability of a partnership is:
- (a) a strength of the business
- (b) calculated using an income statement
- (c) dependent on the number of partners
- (d) unlimited
- [1]
- 9 Empowered employees:
- (a) are only interested in how much they are paid
- (b) dislike coming to work and frequently arrive late
- (c) should not be shown on the organisation chart of a business
- (d) show initiative and complete tasks without guidance
- [1]
- 10 Which of the following is a correct definition of the term 'benchmarking'?
- (a) The annual review of the objectives of a business
- (b) The changing of an organisation to a decentralised structure
- (c) The comparing of business performance to a standard
- (d) The monitoring of market trends over time
- [1]

Mark scheme guidance

One mark for each correct answer.

Questions 11, 12 and 13

11 Which of the following is the main business activity of a primary sector organisation?

(a) Extract raw materials

(b) Provide a service

(c) Sell goods on the Internet

(d) Turn raw materials into finished goods

[1]

12 Carain plc makes caravans. Its costs and revenues for 2017 were as follows:

- fixed costs: £5 100 000
- other expenses: £8000 per caravan
- average selling price: £25 000 per caravan.

Carain plc's breakeven point for 2017 was:

(a) £300

(b) 300 caravans

(c) £17 000

(d) 204 caravans

[1]

13 Which of the following is a long-term financial factor that could affect the success of a business?

(a) Breaching the Equality Act

(b) Disagreements between business owners

(c) Obtaining a mortgage

(d) The current year's fixed costs

[1]

Mark scheme guidance

One mark for each correct answer.

Examiner comments

Question 11 – Answers to this question were relatively equally split across all four choices. Candidates need to be clear on the business activities undertaken by all three sectors – primary, secondary and tertiary.

Question 12 – Pleasingly most candidates were able to calculate '300'. However, too many of these candidates opted for the Answer (a) £300 rather than Answer (b) 300 caravans. This reveals a lack of understanding of the concept of the break-even point. It may be helpful for centres to reinforce not only how to calculate the break-even point, but also its meaning i.e. the level of output at which total revenue equals total cost.

Questions 14, 15, 16 and 17

14 Which of the following is an example of 'division of work'?

(a) Distributing tasks to different functional areas

(b) Increasing staff workloads

(c) Making less efficient employees redundant

(d) Offering rewards to increase workforce motivation

[1]

15 The 'reporting status' in a public limited company:

(a) measures whether the company has achieved its objectives

(b) must be published in accordance with the Companies Act

(c) shows how commands travel downwards from the top of the organisation

(d) would be shown on its organisation chart

[1]

16 Which of the following functional areas is **most** likely to be responsible for maintaining the IT equipment in a large organisation?

(a) Business support services

(b) Customer services

(c) Operations management

(d) Research and development

[1]

17 Which of the following are likely to be variable costs for a coffee shop?

(a) Cakes and drinks

(b) Coffee machine and utensils

(c) Rent and rates

(d) Tables and chairs

[1]

Mark scheme guidance

One mark for each correct answer.

Examiner comments

Question 15 – The phrase ‘reporting status’ is clearly stated in the guidance column of the Specification. Reporting status refers to communication travelling upwards from the bottom of the organisation chart. Several candidates confused ‘reporting status’ (upwards communication) with ‘command status’ (downwards communication) and incorrectly selected Answer C. Many others appeared to have no knowledge of the phrase at all, and opted for Answer B with its link to a company’s need to report its annual financial performance.

Questions 18, 19 and 20

18 Which of the following is a likely impact on UK jewellers if unemployment levels rise in the UK?

(a) Employees will demand higher wages

(b) Expensive jewellery will become more popular

(c) Less jewellery will be sold

(d) The price of jewellery will increase

[1]

19 Exchange rates:

(a) are used to calculate the amount of tax a business must pay

(b) measure the speed at which prices are increasing

(c) show the number of people looking for work

(d) state the value of one currency in terms of another

[1]

20 Which one of the following is an environmentally sustainable business practice?

(a) Buying fair trade products

(b) Giving donations to an animal welfare charity

(c) Paying the living wage to employees

(d) Using green energy

[1]

Mark scheme guidance

One mark for each correct answer.

Questions 21 and 22

Section B

Answer **all** the 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** political factors that have affected a business you have researched.

Name of business

Activity of business.....

1. Responses include:
- political instability/government instability
 - change of government
 - government initiatives
2.
- general election
 - control of trading partners
 - war
 - Brexit.
- [2]**

22 Conduct a SWOT analysis for a business you have researched by inserting one appropriate factor into each box.

Name of business

Activity of business.... Responses include:

SWOT Analysis	
Strength	Weakness
<ul style="list-style-type: none"> • strength e.g. skills of owner, industrial experience, USP, quality products, market leader, effective loyalty schemes, etc. 	<ul style="list-style-type: none"> • weakness e.g. lack of funds, inflexibility, limited expertise, poor reputation, excessive prices, etc.
Opportunity	Threat
<ul style="list-style-type: none"> • opportunity e.g. consumerism, specific consumer trends, emerging markets, etc. 	<ul style="list-style-type: none"> • threat e.g. new legislation, inflation, competition/competitors, etc.

[4]

Mark scheme guidance

Question 21:

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

Must be a political factor. E.g. do not award 'taxation' (economic factor) or 'legislation' (legal factor).

Question 22:

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

Strengths and weaknesses must be internal e.g. what is good or bad about the business itself.

Opportunities and threats must come from an external source i.e. outside of the business' control.

Do not award vague answers such as 'expensive', 'customer service' or 'durable'. However, award 'charges high prices', 'poor customer service' or 'makes durable products'.

Examiner comments

Question 21 – Generally well answered, most candidates were able to suggest two political factors. By far the most common correct answers were 'change in government' and 'government instability'. Those who failed to score full marks on this question, more often than not, confused political factors with economic factors. Answers such as inflation, unemployment, exchange rates are economic factors and could not be awarded for this question.

Question 22 – Once again candidates had difficulty with 'Opportunity'. It would be helpful if Centres reinforced to candidates that in a SWOT analysis 'Opportunity' does not refer to a firm's internal decision to do something (i.e. the common parlance meaning of the word 'opportunity'). Instead it refers to a change in the firm's external environment which opens up an opportunity. Any PESTLE factor e.g. political, economic, social, technological, legal or environmental would have been awardable. Answers such as 'to expand into foreign countries' or 'to sell online' were not awardable as these relate to internal business decisions. The same logic applies to 'Threat'; however this was generally well answered – the most common correct answer being 'competition'.

Exemplar Candidate Work

Question 22 – Low level answer

22 Conduct a SWOT analysis for a business you have researched by inserting one appropriate factor into each box.

Name of business Apple

Activity of business develop, produce, sell electronics

SWOT Analysis	
Strength	Weakness
<ul style="list-style-type: none"> - The company's name is very popular - Reputation is good - one of the world's leading electronics company. 	<ul style="list-style-type: none"> - too focused on gaining profits from the iPhone which puts them at risk. - Their risky large reliability on China to manufacture their products only.
Opportunity	Threat
<ul style="list-style-type: none"> - To create innovative ideas and develop their products further. - To actively provide a better service than its competitors. 	<ul style="list-style-type: none"> - Not presenting innovative ideas enough compared to competitors. - competitors looking to negatively publicise.

[4]

Commentary

Despite the amount of detail provided by the candidate, this answer scored only one mark. The question requires the insertion of one appropriate factor in each box, this candidate has overlooked this instruction and written several. Since a candidate could continue to list ideas until they happen to get one right, examiners are instructed to mark the first answer given by the candidate, in each case.

In a SWOT analysis a Strength is deemed to be something positive about the business that is within its control. The popularity of the company's name was accepted as a Strength. Similarly, a Weakness is deemed to be something negative about the business that is within its control. The candidate's first response was deemed too vague for a mark – the word 'profits' sounds more positive than negative, and there was no clear indication of why it puts them at risk. The second response was annotated as seen, as explained above it cannot be assessed. Neither the Opportunity or the Threat were correct. Opportunities and Threats in a SWOT analysis are deemed to be factors external to the business that have effects beyond the business' control. In both cases, the decision to (or not to) be innovative is an internal decision – so would be a Strength or a Weakness.

Candidates need to understand that Opportunities and Threats come from external factors. The response given by the candidate for Threat came close as it did reference 'competitors', however it appears the candidate believes the threat was lack of innovation rather than the competition (which would have been a correct answer). The Opportunity suggested totally misses the mark.

It can be helpful to encourage candidates to think of external factors when suggesting Opportunities and Threats. One way of doing this is to use the acronym STEEPLEC i.e. social, technological, economic, environmental, political, legal, ethical and competition. A change in any of these factors could be a Threat or an Opportunity for the business. In Apple's case a possible example of this would be the rise in the ethical consumer (as an Opportunity) and changes in phone mast legislation (as a Threat).

Exemplar Candidate Work

Question 22 – High level answer

22 Conduct a SWOT analysis for a business you have researched by inserting one appropriate factor into each box.

Name of business Nikon.....

Activity of business Electronics company.....

SWOT Analysis	
Strength	Weakness
Have a strong market position in the business sector.	Not manufacturing own lens.
Opportunity	Threat
To start producing more own lenses.	Competitors.

[4]

Commentary

This response, though brief, clearly shows that the candidate understands three of the four facets of a SWOT analysis and is able to apply the decision-making tool to Nikon.

The Strength and Weakness suggested are accurate and contextual. Whilst context does not necessarily have to be in the answer, it is always beneficial to answer in specific context if at all possible, not least because it improves the candidate's focus on the question, the chosen business and the answer.

Opportunities and Threats in a SWOT analysis are deemed to be external factors which impact on the business. Although brief, 'competitors' is entirely correct as a Threat. The competition is a major threat to the success of many a business. Unfortunately, the Opportunity suggested by the candidate could not be awarded because it did not relate to a change in an external factor i.e. the decision to produce own lenses is an internal decision entirely within Nikon's control. Thinking of STEEPLEC again (see previous candidate response) the candidate could have referred to advances in technology making it possible for Nikon to manufacture their own lenses.

Opportunities is the facet of the SWOT analysis that candidates find most difficult, helping candidates to begin by thinking of a change in an external factor, can help them secure the mark here.

Questions 23 and 24

23 Explain **two** impacts on a business that you have researched of having a tall hierarchical structure.

Name of business

Activity of business.....

1. Responses include:
- many layers
 - long chain of command
 - slower decision making
 - more complex decision-making process
 - likely to be more formal meetings
 - slower communication
 - tardy, slow to change
 - less responsive to market forces
 - staff alienation
 - narrower span of control
 - existence of middle management
 - more efficient management of employees
2. Responses include:
- poorer quality communication
 - confusion/misunderstandings
 - more opportunities for promotion.

Exemplar response:

Name of business: Darren's Bikes Activity of business: Cycle retailer

Employees at the bottom of the organisation may lack motivation **(1)** because they feel undervalued by those at the top of the organisation **(1)**.

[4]

24 Analyse **two** ways recent advances in technology have affected a business you have researched.

Name of business

Activity of business.....

1. Responses include:
- automation e.g. self-checkouts
 - computerisation
 - robotics
 - communication technologies e.g. social media, instant messaging, online chat
 - mobile technologies e.g. smart phones
 - smart technology e.g. Apps
 - touch screen technology e.g. tablets
 - remote access to data
 - e-commerce/online sales
 - e-banking/online banking
2. Responses include:
- EPOS technology e.g. bar codes
 - electronic stock control
 - digital payment methods e.g. Paypal, Apple Pay, Bit Coins, etc
 - contactless payments
 - GPS.

Exemplar response:

Name of business: Bunting Soft Furnishings Ltd

Activity of business: Soft furnishings producer

E-commerce **(1)** created opportunities for the firm to deal directly with its consumers and offer a personalisation service for its cushions **(1)**. Unfortunately, the firm was slow to create its website and lost customers to the competition **(1)**.

[6]

Mark scheme guidance

Question 23:

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

Impacts can be positive or negative.

Accept explanation as to cause or further impact.

Do not award answers relating to centralisation/decentralisation.

Do not award 'clear job roles' or 'number of employees' because it applies to all structures.

Do not award 'affects communication' or 'affects decision-making' as this could mean an improvement in communication/decision-making.

Question 24:

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.

Do not award telephones/phones, text messaging or email as these are not recent advances in technology. Do award smart phones, instant messaging or online chat.

In each case, third mark must be business-facing analysis i.e. a consequence to the business (not its stakeholders). Examples include profit, sales, wider target market, increased efficiency, able to meet demand, increased output, reduced cost, competitive advantage.

Look for type of technology first.

Examiner comments

Question 23 – Some very pleasing answers to this question which showed that candidates had used the research brief and had studied business organisation structure in considerable detail. Impacts could be positive or negative. The most common correct answers were 'many layers', 'slowing down communication', 'narrow span of control', 'improving management oversight', 'greater promotion opportunities' and 'improving motivation'.

Those who did not score highly tended to confuse a tall hierarchical structure with a centralised organisational structure. Whilst the most common organisational structure in the UK is tall and decentralised, the question explicitly required impacts of being 'tall'. Therefore, answers such as 'all the decisions are made at the top of the organisation' could not be awarded.

Question 24 – The vast majority of candidates were able to score at least 4 of the available 6 marks. Most candidates named a specific type of technology, pleasingly showing detailed research into the organisations that they had studied. Those who gained 4 marks, rather than 6 marks, invariably raised points of an explanatory, rather than analytical, nature. To gain the third mark, in both cases, the candidate needed to give the impact to the business e.g. greater output, higher quality, improved productivity etc. The most common error was to give benefits/drawbacks to the customer or employee rather than to the business e.g. shorter queues or order from comfort of own home. Evidence of good exam technique was seen by candidates at some centres – candidates had highlighted the words 'affected a business' in the question wording.

Question 25

25 Describe how the purchasing function in a business that you have researched sources its products.

Name of business

Activity of business.....

Use level of response criteria.

Responses include:

HOW:

- visits potential suppliers
- uses the Internet/online research
- contacts/talks to/emails/phones potential suppliers
- puts out to tender
- uses supplier database.

WHAT:

- quality
- lowest price
- from local suppliers
- where obtain supplies from e.g. farms, markets, wholesalers, China, local suppliers
- use regular suppliers
- regularly checks for new deals
- does research.

[4]

Exemplar response:

Name of business: Monks Wing Activity of business: Private hospital

It holds a meeting with pharmaceutical representatives **(CONT) (L2 – how – 4 marks)**.

It finds a supplier that it believes can provide best value for money for the dressings and bandages **(CONT) it needs to buy (L2 – what – 3 marks)**.

It rings round potential suppliers to discuss price **(L1 – how – 2 marks)**.

It chooses to buy its stationery from ethical suppliers **(L1 – what – 1 mark)**.

Mark scheme guidance

Levels of response

Level 2 (3–4 marks)

Candidate describes how a business sources its products using specific context (relating to purchasing).

Level 1 (1–2 marks)

Candidate describes how a business sources its product without context.

Award top of the appropriate level for a practical 'how'. Award bottom of level for 'what'. i.e. **Award:**

- 4 marks for HOW with context.
- 3 marks for WHAT with context.

- 2 marks for HOW without context.
- 1 mark for WHAT without context.

Answers must be 'what'/'how' not 'why'.

For purchasing context look for evidence of type of business – what it purchases or what it sells or a specialist supplier e.g. coffee, sugar, t-shirts, buttons, medical supplies, farms, etc.

Examiner comments

This question required description rather than explanation. Answers were disappointing. To score full marks we were looking for a 'practical how' with context. A relatively straight forward answer of 'purchasing searches the internet for stationery' or 'goes to a wholesaler to buy food and cleaning fluids' would have scored the full four marks. Many answers lacked the 'practical how', stating what was being looked for e.g. low prices, rather than 'how' these are found. Other answers were generic and therefore lacked context e.g. used the term 'product' rather than referring to a specific type of item purchased. Sadly, even more lacked both of these i.e. no 'practical how' and no context, such answers scored a maximum of one mark.

Exemplar Candidate Work

Question 25 – Low level answer

25 Describe how the purchasing function in a business that you have researched sources its products.

Name of business McDonald's

Activity of business Purchasing

Purchasing Department sources its products by spending less on suppliers prices costs will lower which will help McDonald's buy ^{cash} ~~the~~ the purchasing department look for cheaper products which help them to save ~~the~~ cash.

[4]

Commentary

The candidate shows some knowledge of the purchasing function at McDonald's and gains one mark.

This question is worth four marks; there are two specific weaknesses in this candidate's answer – firstly it lacks description and secondly it lacks context.

The candidate is awarded a mark for 'spending less on suppliers', as this is 'what' purchasing at McDonald's may well do. However, the remainder of the answer gives an explanation of 'why' the business would do this i.e. to lower costs and save money; whilst a plausible explanation it does not answer the question. The question asks 'how' not 'why'. This is further emphasised by the command word 'describe' rather than 'explain'. A 'describe' question requires the candidate to develop their answer into a 'how'. The candidate must answer the question set. Answering a different question (even one that is more difficult than the question itself e.g. explain or analyse) cannot be awarded. The more detail a candidate can give, the better the response is likely to be. Examiners were looking for 'how', and preferably a 'practical how' e.g. how does McDonald's spend less on suppliers? Possibly by negotiating with suppliers, or searching out cheaper suppliers on the internet, or by purchasing staff exercising the company's market power when setting pricing levels. Any 'practical how' would have been awarded as description.

The answer also lacked context. A simple test for context which may be helpful for candidates is to re-read the answer ignoring the name of the business (in this case McDonald's). Is there anything in the answer that provides even a clue that they are a fast food restaurant? A simple reference to 'suppliers of beef' or 'farmers' or 'happy meal' or even 'food' would have sufficed to put this answer into context. The importance of using context cannot be overemphasised. One way to encourage contextual answers in the classroom could be to display a typical candidate answer (like this one) on the board as a starter for a lesson – with the simple challenge to add context in as a few words as possible.

In accordance with the mark scheme a contextual response would be awarded a level 2 mark of 3 or 4; whereas a non-contextual response would be awarded a level 1 mark of 1 or 2. The simple addition of the word 'beef' (or any similar example) would have increased the mark awarded for this answer from 1 mark to 3 marks. The addition of a 'practical how' would have achieved full marks.

Exemplar Candidate Work

Question 25 – High level answer

- 25 Describe how the purchasing function in a business that you have researched sources its products.

Name of business Sainbury's

Activity of business..... Supermarket

→ Purchasing function area are the ones that makes orders such as raw material like Potato in order to meet the demand of it's customers. They are are the one who deals with ~~the~~ ~~supplies~~ the suppliers ~~as they~~ so, they ~~are~~ ~~likely~~ make sure that product are bought at best price and quality.

[4]

Commentary

This candidate's answer relates to Sainsbury's supermarket. The reference to 'potato' gives a clue to what this business might buy. This is sufficient for context and allows the candidate to access a level 2 mark of 3 or 4.

The candidate explains 'what' the purchasing function does i.e. bought at best price and quality; however the response does not go on to 'describe how' (as required by the wording of the question). Any plausible method would have been awarded e.g. visiting the farms, holding meetings, over the phone negotiations, or whatever.

To achieve full marks the candidate needs to 'describe', rather than just 'state', how Sainsbury's purchasing function sources its products.

Section C

Section C

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

Business scenario: *Lushcereal Ltd*

Lushcereal Ltd is the UK's seventh largest producer of breakfast cereals and, with a market share of 4%, the UK's leading premium brand. The company makes a range of luxury, premium-brand porridges, mueslis and other oat-based breakfast cereals. *Lushcereal Ltd's* breakfast cereals are packaged in large distinctive black and gold boxes. The breakfast cereals are available from large supermarket chains nationwide. Targetted at adults, *Lushcereal Ltd* aims to attract affluent consumers who are willing to pay for quality. All the ingredients the company uses are organic and are sourced 100% from the UK. *Lushcereal Ltd* invests in local community projects, gives money to medical research charities and supports a national tree planting scheme.

Lushcereal Ltd has been so successful in recent years that the directors have decided to expand the company. The expansion will allow the business to increase output and extend its product range. The directors plan to develop a second production facility on the edge of the picturesque village of Buthorpe, five miles from the current site. The proposed expansion will cost around £36 million. The directors remain committed to operating the company ethically.

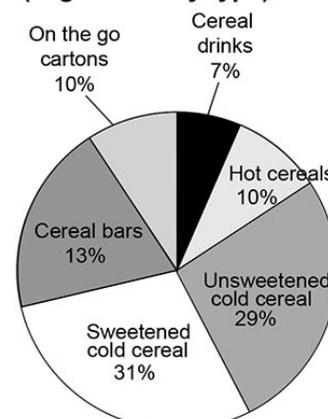
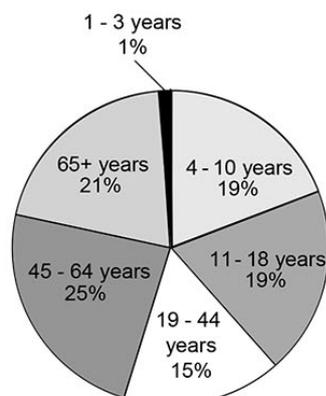
Residents of Buthorpe have not been informed about the proposed development. The area relies on tourism and its reputation for being a quiet and pretty village. Being concerned about pollution and congestion levels, its residents have protested against business investment in the area in the past. An environmental pressure group even got involved, attracting lots of publicity.

Lushcereal Ltd's success is particularly attributable to its excellent marketing function which works closely with all the other functional areas in the organisation. Its current research indicates that:

- there is a significant trend towards eating a healthier breakfast e.g. high fibre, low sugar or breakfast cereals containing superfoods
- sales of cold breakfast cereals in the UK fell by 4% last year; however sales of hot breakfast cereals e.g. porridge rose by 3%
- an increasing number of young adults report not having time for breakfast and try to grab breakfast on the go
- supermarkets only account for 56% of UK breakfast cereal sales; the remaining 44% of sales are from convenience stores e.g. corner shops, railway stations and cafés.

Further market research data is shown in Figs. 1 & 2 below.

Fig. 1: UK breakfast cereal consumption (segmented by age) **Fig. 2: UK sales of breakfast cereal (segmented by type)**



Questions 26 and 27

26 *Lushcereal Ltd* is a private limited company.

Identify who owns and who controls a private limited company.

Owns.....	Indicative content: <ul style="list-style-type: none"> • owned by shareholder(s). • controlled by director(s)/the executive/managing director/CEO.
Controls...	

[2]

27 Explain **one** advantage and **one** disadvantage to *Lushcereal Ltd* of operating ethically.

Advantage.....	Responses include: <ul style="list-style-type: none"> • advantages e.g. better reputation, good corporate image, attract ethical consumers, increased brand loyalty, may be able to charge a higher price, may be able to attract ethical investors. • disadvantages e.g. higher cost, conflict with profit motive, lower shareholder returns, operations more complex, unable to tap into the low end discounted market.
.....	
.....	
.....	
Disadvantage ..	Exemplar response: e.g. One advantage of operating ethically is that the business is likely to be able to charge a higher price for its cereals (CONT) (2) . e.g. One advantage of operating ethically is that <i>Lushcereal Ltd</i> may be able to attract more consumers (1) . e.g. One disadvantage of operating ethically is that farmers will need to be paid a decent price for the grain (CONT) , reducing profits (2) . e.g. One disadvantage of operating ethically is that employees need to be paid good wages, increasing business costs (1)
.....	
.....	
.....	

[4]

Mark scheme guidance

Question 26:

Up to two marks.

Question 27:

Up to two marks for an explanation of an advantage, plus up to two marks for an explanation of a disadvantage.

In each case, award two marks for a contextual explanation. Award one mark for a non-contextual explanation.

Examiner comments

Question 26 – This question revealed a basic lack of understanding by many candidates. Many were aware of ‘shareholders’ and ‘directors’ but put the answers the other way round i.e. they erroneously believed that directors own and shareholders control. This is an area of the specification that may warrant further consideration.

Question 27 – Most candidates scored two of the available four marks on this question by suggesting an advantage and a disadvantage. It should be noted that the question clearly says ‘to Lushcereal Ltd’, therefore, a contextual answer was required. Many generic answers e.g. ‘improve the reputation of the products’ could so easily have been contextualised e.g. ‘improve the reputation of the breakfast cereal’.

Exemplar Candidate Work

Question 27 – Low level answer

27 Explain **one** advantage and **one** disadvantage to Lushcereal Ltd of operating ethically.

Advantage..... is that by operating ethically means that they help the environment become more green and means they get support from people, also means that adults are more likely to buy their products, another is reduction of carbon footprint.

Disadvantage..... is that the company will not grow to a larger scale as they will be reluctant to expand the company by building more factories, also the use of 100% organic raw source from UK means it's expensive rather than cheaper imports.

[4]

Commentary

When answering an 'advantage' or 'disadvantage' question candidates need to carefully consider to whom or to what the advantage/disadvantage applies. In this case the question asks for the advantage/disadvantage to Lushcereal Ltd i.e. to the business. The question could have asked for the advantage/disadvantage, say, to customers, employees, local residents or the environment. Much of the candidates first response relates to benefits to the environment of Lushcereal Ltd operating ethically. This is not the focus of the question and cannot be awarded. Thankfully, the candidate does mention 'support from people' and that coupled with 'more likely to buy their products' is sufficient to gain one mark.

The second mark in this response would have been awarded for the use of context. The context for this question is Lushcereal Ltd. Re-reading the answer, there was nothing in this response that gave the examiner a clue as to what Lushcereal produces. A simple reference to 'breakfast' or 'nutrition' or 'porridge' etc would have sufficed to gain two, rather than one mark. One tip that may help candidates is to encourage them not to use the word 'products'. In this response if the candidate had written 'more likely to buy their breakfast cereal' then the answer would have gained an additional mark.

The second response was deemed incorrect. Many businesses that trade ethically expand and have a large market share. A possible third answer is given in the last sentence relating to more expensive UK products rather than more expensive imports – however as that would be a third response it cannot be awarded. The question clearly asks for 'one', candidates cannot be awarded for listing answers until they get one right. The first one they state is the first one the examiner must mark. The most common correct answer to this 'disadvantage' question did concern higher costs.

Exemplar Candidate Work

Question 27 – High level answer

27 Explain one advantage and one disadvantage to Lushcereal Ltd of operating ethically.

Advantage... Because they are ~~making a profit~~ operating ethically, more customers ~~will~~ ^{would} rather buy goods from here than be other competitors.

Disadvantage... Because some of their money are going to charities, they don't have ~~much~~ ^{money} left as profit.

[4]

Commentary

The candidate gives two good answers here i.e. more customers and less profit. The second answer is deemed to be in context because of the reference to giving to charities – the context is weak but awarded because the business scenario clearly states that Lushcereal Ltd donates to charity. Unfortunately, the first answer contained no context at all. The candidate was awarded 3 of the available four marks, one mark for response one and two marks for response two.

To gain full marks the candidate needed to give a contextual answer to response one. This could have been achieved by substituting 'breakfast cereal', 'breakfast bars', 'muesli' or 'porridge' etc for 'goods'. 'Goods' is a generic term similar to 'products' that applies to any business. Candidates are advised to refer to the specific goods or services that the business makes, provides or sells.

It may be helpful to explain to candidates that any question that includes the name of a specific business (in this case Lushcereal Ltd) requires a contextual response. The following two questions require different responses – i.e. for the first question a generic response would be acceptable, for the second question a contextual response would be required.

E.g. Q1 Explain one advantage to a business of operating ethically.

E.g. Q2 Explain one advantage to Lushcereal Ltd of operating ethically.

Given the vocational nature of this qualification the vast majority of the questions on the paper will be contextual, and therefore require a contextual response for full marks.

Question 28

- 28 Advise the directors of *Lushcereal Ltd* how to manage any external stakeholder conflict caused by the proposed expansion of the company. Justify your answer.

[12]

Use level of response criteria.

Responses include:

- communicate with stakeholders – inform, negotiate
- timing of communication with stakeholders – before, during and after the expansion
- take a proactive, rather than reactive, approach
- emphasise the benefits to the area
- reduce anxiety about the perceived negatives
- listen to stakeholder viewpoints
- monitor stakeholder opinions and actions
- respond to stakeholder concerns
- use a mediator
- offer pacifiers
- compromise
- be open and transparent
- hold public meetings/open consultations
- use public relations, media
- two-way communication
- invest in the local community
- promote the firm's ethical practices.

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over

Exemplar response:

e.g. Local residents should be invited to a public meeting to inform them about the proposed expansion (**L1**). This should be done before the information goes out to the press (**L2**). Informing the residents should stop rumours and misinformation, which may increase the intensity of conflict, from being circulated (**L3**).

In addition, the meeting must allow for two-way communication (**L1**). Local residents must be actively listened to when they raise their concerns (**L2**). This will show that the company is mindful of local residents' needs, lowering external stakeholder anxieties and encouraging a more positive response from the local residents (**L3**).

Despite taking up a significant amount of time, holding a series of public meetings should minimise the likelihood of the residents organising a formal protest about, say, potential noise or congestion problems (**CONT**). In turn, protecting the company from negative publicity or damage to its reputation which would ensue if any form of protest went ahead (**L4**).

Mark scheme guidance

Levels of response

Level 4 (10–12 marks)

Candidate evaluates how to manage any external stakeholder conflict caused by the proposed expansion.

Level 3 (7–9 marks)

Candidate analyses ways to manage any external stakeholder conflict caused by the proposed expansion.

Level 2 (4–6 marks)

Candidate explains ways to manage any external stakeholder conflict caused by the proposed expansion.

Level 1 (1–3 marks)

Candidate identifies ways to manage stakeholder conflict.

Do not award 'locate elsewhere' as that would be conflict avoidance not conflict management.

Do not award 'this would reduce conflict' as analysis, because that is the question.

L4 – overall justification of why the methods suggested would be beneficial to the business (which builds from previous analysis).

Award 10 marks for a generic argument about the benefit(s) e.g. methods good because ... (no context)

Award 11 marks for a contextual argument about the benefit(s) e.g. methods good because ... (with context).

Award 12 marks for a comparative, contextual argument about the benefit(s) e.g. method the best to use because (with context).

NB A counterargument is analytical.

L3 – stop protests, convince stakeholders, reduce complaints, less reluctant to oppose.

Examiner comments

In general candidates showed good knowledge of how to manage external stakeholder conflict and were able to explain their suggestions e.g. hold a public meeting (Level 1) to allow the public to express their opinions (Level 2). Those who scored more highly were able to analyse their suggestions. Disappointingly few candidates attempted to justify their suggestion despite the clear instruction to do so. For a Level 4 mark, examiners were looking for a justification as to what was the best method for *Lushcereal Ltd* to use, and why.

Those candidates who scored poorly on this question tended to confuse managing stakeholder conflict with avoiding stakeholder conflict. Arguments suggesting that the business should relocate elsewhere were not awarded.

Question 29

29 The cash flow statement for *Lushcereal Ltd*'s last six months of trading is shown below.

Cash flow statement for *Lushcereal Ltd*: July – December 2017

	Jul	Aug	Sep	Oct	Nov	Dec
Cash inflows	£1.3m	£1.3m	£1.4m	£1.6m	£1.7m	£1.7m
Cash outflows	£1.1m	£1.4m	£1.8m	£1.1m	£1.4m	£1.8m
Net cash flow	£0.2m	(£0.1m)	(£0.4m)	£0.5m	£0.3m	(£0.1m)
Opening balance	(£0.3m)	(£0.1m)	(£0.2m)	(£0.6m)	(£0.1m)	£0.2m
Closing balance	(£0.1m)	(£0.2m)	(£0.6m)	(£0.1m)	£0.2m	£0.1m

(a) Explain the difference between a cash flow statement and a cash flow forecast.

Indicative content:

- cash flow statement: historic, past, actual, has happened, real figures, shows the (actual) flows
- cash flow forecast: prediction, estimate, future, target, guess, not yet happened, may not happen

Exemplar response:

E.g. A cash flow statement shows what has happened in the business **(1)**. In contrast, a cash flow forecast is only a prediction **(1)**.

E.g. A cash flow statement shows historic figures **(1)** whereas a forecast does not **(0)**.

[2]

(b) Analyse the cash flow position of *Lushcereal Ltd*.

Responses include:

- negative opening balance for July
- positive closing balance for December
- net cash flow sometimes positive, sometimes negative
- closing balance hovering around £0 – sometimes negative, sometimes positive
- cash inflows show an improvement in the final quarter – possibly winter/seasonal sales
- cash outflows appear to have a cyclical pattern – £1.1m, £1.4m, £1.8m – possibly quarterly large payments
- overdraft facility was used from July to October
- £0.4m improvement from opening balance in July to closing balance in December
- no significant spare funds
- unlikely to be able to fund the expansion with internal funds.

Exemplar response:

Lushcereal Ltd's cash inflows have increased in the last quarter of the year **(1)**. In some months cash inflows exceeded outflows, in other months they did not **(1)**. The company had a negative closing balance from July to October **(1)**, however it started the new year with a positive opening balance **(1)**.

[4]

Mark scheme guidance

Question 29(a):

Up to two marks.

Award two marks for an explicit difference. Else award one mark for a partial argument.

Do not award 'statement' or 'forecast'.

No context required.

NB candidates are not required to state what a cash flow statement/forecast is.

Question 29(b):

One mark for each piece of data analysis up to a maximum of four analyses, but allow development.

Analysis for this data response question is taken to mean something the candidate has worked out from the data.

Do not award direct quotes from the figures e.g. do not award 'the closing balance for December was £0.1m'. However, award 'the closing balance for December was positive'.

Do not award references to 'profit' or 'loss'.

Do not award vague comments such as 'good', 'bad', 'weak' or 'strong'.

Do not award 'cash inflows' increase every month'.

Examiner comments

Question 29(a) – The main difference between a cashflow forecast and a cashflow statement does not concern content, rather it concerns the former being a future prediction whilst the latter actual and historic. The vast majority of candidates were able to clearly express this difference and scored full marks on this question.

Question 29(b) – This question is a data response question which required the candidate to consider the data given in the cash flow statement. The question did not require candidates to suggest the causes of any issues identified or, indeed, any solutions to any issues identified. The most common error was to confuse cash flow with profit and loss. Statements about the business making profits or losses in various months could not be awarded. Another concern was the number of candidates who appear to overlook, or confuse, the brackets. Whilst some candidates appeared to overlook the brackets entirely, others erroneously believed the brackets to indicate positive figures and assumed that all other figures were negative.

Question 30

30 *Lushcereal Ltd* needs to decide how to fund the proposed expansion of the company. The following sources of finance are being considered:

- a 10-year variable rate loan from a commercial bank

or

- venture capital from an ethical investor.

Analyse both sources of finance. Which source of finance should *Lushcereal Ltd* choose? Give reasons for your answer.

[12]

Use level of response criteria.

Responses include:

- advantages of the bank loan e.g. long term, pay in instalments, easy to budget, no loss of control, current shareholder stakes retained
- disadvantages of the bank loan e.g. debt funding has to be repaid, interest charged, rates may increase, additional monthly cash outflow, negative effect on net cash flow, negative impact on profit, effects last for 10 years, increased risk, penalties for late payment
- advantages of venture capital e.g. no upfront cost, no interest charged, equity funding does not need to be repaid, experience/expertise of venture capitalist, strengthen ethical commitment/reputation
- disadvantages of venture capital e.g. difficult to find a suitable investor, even ethical investors have different priorities to each other, potential for conflict with current shareholders, loss of current shareholder stake, proportion of profit to be paid to venture capitalist, less profit to invest in future ventures, loss of control.

Exemplar response:

One advantage of taking out a 10-year bank loan is that the payments can be spread over the long term (L1). However, these payments include interest charges (L1) and over 10 years a lot of interest will be paid (L2). This reduces the profitability of the company (L3).

On the other hand, using a venture capitalist would mean that the company does not get into any further debt (L1). This is because a venture capitalist is providing equity funding and not lending the company money (L2). This will avoid putting additional demands on the company's already faltering cash flow position (L3).

Given the company's current cash flow situation the directors maybe should use a venture capitalist. Not only will this stop any further strain on the company's cash flow, it will provide additional expertise and input that could help take the company forward in the coming years (L4).

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Mark scheme guidance

Levels of response

Level 4 (10–12 marks)

Candidate evaluates which of the two sources of finance *Lushcereal Ltd* should choose.

Level 3 (7–9 marks)

Candidate analyses the feature(s) of the source(s) of finance available to *Lushcereal Ltd*.

Level 2 (4–6 marks)

Candidate explains the feature(s) of the source(s) of finance available to *Lushcereal Ltd*.

Level 1 (1–3 marks)

Candidate identifies feature(s) of bank loans and/or venture capital as a source of finance.

Do not award weak/general answers or answers that apply to both sources e.g. do not award 'fast,' 'easy to obtain,' 'get the money upfront' or 'will be able to afford to expand the company'.

NB A counterargument is analytical. E.g. One benefit of using a venture capitalist is that the money does not have to be repaid (L1) this lowers the cost of the investment (L2). However, there would be increased potential for conflict between the existing shareholders/directors and the venture capitalist (L3).

NB Candidates must have achieved at least 2 L3s (one for bank loan and one for venture capitalist) before accessing L4.

L4 – Candidates must **choose** one of the two sources of finance.

Award 10 marks for a generic argument about the benefit(s) e.g. source good because ... (no context).

Award 11 marks for a contextual argument about the benefit(s) e.g. source good because ... (with context).

Award 12 marks for a comparative, contextual argument about the benefit(s) e.g. source the best to use because (with context).

Examiner comments

Candidate knowledge of bank loans and venture capital appeared basic at best. Many were able to go no further than suggest a bank loan charged interest and a venture capitalist would provide advice. Even more worrying was the all too common premise that venture capitalists have to be paid back i.e. a source of debt funding rather than equity funding.

Those candidates who did show good knowledge and understanding were usually able to analyse the benefits and drawbacks and were well rewarded. Having achieved Level 3 for analysis, to gain Level 4 marks all the candidate needed to do was recommend one of the funding methods and give a valid reason for their choice. Due to a fundamental lack of knowledge, especially relating to venture capital, this justification was frequently flawed.

Exemplar Candidate Work

Question 30 – Low level answer

30 *Lushcereal Ltd* needs to decide how to fund the proposed expansion of the company. The following sources of finance are being considered:

- a 10-year variable rate loan from a commercial bank
- or
- venture capital from an ethical investor.

Analyse both sources of finance. Which source of finance should *Lushcereal Ltd* choose? Give reasons for your answer.

[12]

A 10-year variable rate loan from a banker is long a term loan which allows *Lushcereal* to purchase goods from straight away. The advantages of a loan is that the company can buy goods straight away and pay it back in instalments. The disadvantage of a bank loan is from *Lushcereal* may end up paying more after at the end due exchange rates also, *Lushcereal* may have to leave security such a house in case the loan is not paid back.

Venture capital from an ethical investor is a large long-term source of finance which is paid back in instalments. The advantages of using a venture ethical investor is that it will have a good reputation of the business. The disadvantage of using venture capitalist is that they will try to have an input and say on

business idea.

In conclusion I believe that Lushcerial should use a 10-year variable loan from a commercial banker because they will be able to pay for expansion straight away.

Commentary

In accordance with the mark scheme this question is level of response marked. Candidate answers are categorised according to the highest skill displayed in their answer – Level 1 being for knowledge, Level 2 being for understanding, Level 3 being for analysis and Level 4 being for evaluation.

This is a low level answer because it shows some knowledge about bank loans and venture capital funding but offers no explanation, analysis or evaluation.

The response begins by considering a bank loan. The reference to 'purchasing goods straight away' cannot be awarded because it is not true, obtaining a bank loan requires a business to go through an application process. The reference to 'instalments' would have gained a mark as an advantage over venture capital funding if the candidate had not also suggested that venture capital is also paid back in instalments. Therefore, in the candidate's mind at least, there is no difference in the two methods i.e. they both allow payment in instalments. The candidate does however make two valid knowledge points which can be awarded 'end up paying more' and 'may have to leave security'. The candidate did attempt to explain the former, but their explanation was incorrect. If they had correctly referred to 'interest rates' rather than 'exchange rates' then the response would have been counted as explanatory and have been moved to Level 2.

The paragraph which considers venture capital funding also contains two valid points of knowledge i.e. using an ethical investor could improve the reputation of the business and they may require an input in business decision-making.

Four valid points were made, but all were knowledge-based, none were developed. The candidate was given the maximum Level 1 award of three marks.

Exemplar Candidate Work

Question 30 – Medium level answer

30 Lushcereal Ltd needs to decide how to fund the proposed expansion of the company. The following sources of finance are being considered:

- a 10-year variable rate loan from a commercial bank
- or
- venture capital from an ethical investor.

Analyse both sources of finance. Which source of finance should Lushcereal Ltd choose? Give reasons for your answer.

[12]

A 10-year variable rate loan would give the business the money it needs to expand. As the expansion should increase help increase the businesses revenue and profit. ~~The~~ ~~cost~~
 An advantage of the loan from a commercial bank is that it gives Lushcereal Ltd time to slowly pay back the loan. On the other hand, the variable loan has a variable rate. This ~~could~~ ^{could} be an advantage or disadvantage to the business. If the variable rate increases, Lushcereal would have to pay back more money. If the variable rate stays the same or decreases the business could potentially pay back less than the usual amount.

Lushcereal Ltd can fund the proposed expansion of the company by a venture capital from an ethical investor. This means that they would receive money ~~by~~ ~~as~~ from an investor and would have to give ~~to~~ ~~the~~ money back ~~to~~ or give a percentage of the profit to the investor. An advantage of this is that the investor ~~was~~ is ethical this means that

the business will have a reputation for being ethical & this would attract customers and other investors to the business. A disadvantage to this is that they may not have the money to pay back; they may not gain profit from the proposed expansion of the company.

Commentary

This answer shows some good knowledge of the differences between funding via a bank loan and funding via a venture capitalist. Several of the points made are explained. Unfortunately none of the points are analysed and there is no attempt at making an overall decision. In accordance with the mark scheme the candidate needs to be awarded a Level 2 mark (for showing understanding). The maximum award for this level is six, and was deemed appropriate in this case.

The best point made for the bank loan was that the interest rate is variable (knowledge) meaning the business might pay more or less (understanding). Likewise, for venture capital an ethical investor may improve reputation (knowledge) potentially attracting other customers/investors (understanding).

To move this response to Level 3 the candidate needed to 'analyse' the points made. By analysis on this qualification we always mean 'consequence' of an Level 1 or Level 2 point made. So, following the comment about interest rates being variable (knowledge) meaning the business might pay more or less (understanding) the examiner would hope to see an impact of this on the business. Some suggestions for this particular point could be – increasing/decreasing business costs, increasing/decreasing cash outflows, increasing/decreasing the break-even point. increasing/decreasing profit etc. Likewise, the argument regarding venture capital funding from an ethical investor will improve reputation (knowledge) and lead to more customers (understanding) could have been followed by the impact. Valid analytical comment of having more customers would include getting more sales revenue, increased cash inflows, or reaching break-even point sooner etc.

It can be helpful to encourage candidates to keep a basic paragraph structure in their mind e.g. make the knowledge point, explain it to show understanding, analyse it by suggesting the consequences (KUA) This done in a methodical way can lower the chances of the analysis being omitted.

Exemplar Candidate Work

Question 30 – High level answer

30 *Lushcereal Ltd* needs to decide how to fund the proposed expansion of the company. The following sources of finance are being considered:

- a 10-year variable rate loan from a commercial bank

or

- venture capital from an ethical investor.

Analyse both sources of finance. Which source of finance should *Lushcereal Ltd* choose? Give reasons for your answer.

[12]

Lushcereal Ltd could choose a 10 year variable rate loan from a commercial bank as it is a fast way of getting money which will save them a lot of time, whereas another reason why the *Lushcereal Ltd* would use the loan is because they have a long period of time to pay the debt off which is what a business needs, however this could not be a safe option as if things go wrong it could lead to bankruptcy, also a loan could lead the business to a limited amount of profit due to the debt they are paying for the expansion. a venture capital from an ethical investor could be a good choice for *Lushcereal Ltd* to fund the expansion of the company, because it's not a debt, however it's someone who believes the business will be profitable for him and

for the company. This is good as the company won't have a debt to pay off and will save the company money and profit from it, however it does mean that this investor could not agree with the company's decision later on which would cause many problems to the business as he could stop investing. Overall I believe the loan with a 10 year period would be the best choice as the company will benefit from this choice than the ethical capital from an ethical investor.

Commentary

This response shows good knowledge and understanding of both funding methods. The response also contains analysis because it suggests the consequences to the business of the points made. In essence the candidate's analytical argument for the bank loan (although not clearly structured) is that the bank loan has to be paid back, the consequence of which is reduced profits. Likewise, for the venture capital funding, it does not need to be paid back, the consequence of which saves money and retains profit.

The candidate also attempts to conclude by answering the question set i.e. which source of finance should Lushcereal Ltd choose? The candidate clearly selects the bank loan. However, because no reasoned justification is given as to why the bank loan is of greater benefit than venture capital funding it cannot be awarded. The highest level the candidate achieved was Level 3 (for analysis) and a mid-Level 3 mark of eight was awarded.

To achieve a Level 4 mark the candidate would need to give a specific reason 'why' the bank loan is the better choice (or venture capital if preferred). For example, given the selection of the bank loan the candidate could have argued that this would mean that current owners remain in control of the decision-making and continue to steer the business as they prefer e.g. to go ahead with the proposed expansion without potential disagreements from an additional investor, or without having to share their profits with an additional investor. Alternatively, they could have argued that venture capital funding would be the source of finance to choose because it does not need to be paid back, lowering business costs, increasing profits and potentially giving greater returns on investment to all shareholders. The more contextual the argument to the specific circumstances of the business, in this case Lushcereal Ltd, the higher the Level 4 mark that would be awarded.

Question 31

31 Explain **one** way the marketing function and the research and development function could work together to benefit the company.

Responses include:

- Marketing could conduct research into new product features customers desire **(1)**. R&D then designs a product to meet these customer needs **(1)**.
- Marketing can identify customer needs **(1)** and communicate these to R&D so that they can develop a suitable product **(1)**.
- R&D could develop a new product **(1)**. Marketing can produce a campaign to advertise the new product **(1)**.
- R&D could produce a prototype of a new product **(1)** which Marketing can test in a trial **(1)**.

.....

.....

.....

. [2]

Mark scheme guidance

Up to two marks.

Award one mark for activity of marketing or R&D function. Award second mark for the activity of the other function **if** the two activities support each other.

NB The question asks for a way i.e. how – what activities does each function perform.

Do not award 'the marketing function *markets* the product', please annotate as too vague i.e. TV.

Examiner comments

This question dichotomised candidates. Those with a clear understanding of the role of marketing and the role of R&D gained full marks. Those without this knowledge tended to score zero. Of the few who scored one of the available two marks, the marketing function proved to be the most accessible with answers such as 'advertising', 'finding out what customers want' and 'customer surveys' being the most common correct, albeit partial, answers. The greatest point of confusion appeared to be a widespread misunderstanding that R&D carries out consumer research. This is a marketing function and, as such, was not awardable.

Question 32

32 Using the data in **Figs. 1 & 2** and any other relevant information, recommend how *Lushcereal Ltd* could further improve its business performance.

[12]

Use level of response criteria.

Responses include:

- Fig. 1 e.g. in addition to producing cereals for adults, there are opportunities to produce cereals for young children and older children, the senior citizen market also appears substantial
- Fig. 2 e.g. opportunities to distinguish between sweetened and non-sweetened cereals, cereals do not need to be presented traditionally i.e. in a bowl with milk, modern markets such as cereal bars, on the go cartons and cereal drinks could be tapped
- target a specific age group
- marketing could emphasise the healthiness of their breakfast cereals e.g. high fibre, low sugar, containing superfoods
- R&D could develop new varieties to meet new trends towards healthier eating e.g. high fibre, low sugar, containing superfoods
- concentrate on hot cereals that are becoming increasingly popular
- need to boost marketing efforts for cold cereals to boost sales against national trends
- develop innovative new products to service the increasing demand for breakfasts on the go
- expand its channels of distribution beyond supermarkets e.g. consider petrol stations, motorway service stations and newsagents as well as corner shops, railway stations and cafés
- continue with the effective exploits of the marketing function e.g. lots of research, strong advertising, quality packaging
- stress the unique selling points of the breakfast cereals and the business e.g. ethics a priority, organic produce, fully sourced in UK, quality product, supports tree planting scheme, gives to charity, supports local community projects
- use market segmentation
- change the market focus/target market
- adjust the marketing mix – price, place, promotion, product (including packaging).

Exemplar response

One change the company could make is to develop new recipes which are lower in sugar and higher in fibre (**L1**). This will mirror social trends towards healthy eating (**L2**) and help attract more health-conscious consumers to increase sales revenue (**L3**).

The company could also tap into the increasing demand for breakfasts on the go (**L1**). Cereals taken in a bowl with milk are not conducive to breakfast on the go (**L2**). The company could increase cash inflows by developing alternative products e.g. an oat-based milk drink available in several fruity flavours (**L3**).

Overall, innovation seems to be the key. Given the company's ethical stance (**CONT**) and its position in the premium market, I would recommend that it develops products that are consistent with this company image. The products need to emphasise not only the quality and premium quality of the ingredients but also have a modern twist. This should help to meet the needs of today's discerning, but time poor, consumers. For this reason, I recommend a range of superfood cereal bars targeted at busy professionals who are health conscious and love the planet (**L4**).

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Mark scheme guidance

Levels of response

Level 4 (10–12 marks)

Candidate evaluates how Lushcereal Ltd could further improve its business performance.

Level 3 (7–9 marks)

Candidate analyses how Lushcereal Ltd could further improve its business performance.

Level 2 (4–6 marks)

Candidate explains how Lushcereal Ltd could further improve its business performance.

Level 1 (1–3 marks)

Candidate identifies ways in which a business can improve its performance.

L4 – overall justification of why the ideas recommended would be beneficial to the business (which builds from previous analysis).

Award 10 marks for a generic argument about the benefit(s) e.g. idea(s) good because ... (no context).

Award 11 marks for a contextual argument about the benefit(s) e.g. idea(s) good because ... (with context).

Award 12 marks for a comparative, contextual argument about the benefit(s) e.g. idea(s) the best to use because (with context).

Examiner comments

Most candidates were able to put the data to good use and make several relevant suggestions to improve *Lushcereal Ltd's* business performance. The vast majority of candidates made numerous suggestions and were able to explain why these would be beneficial to the business. Answers were not limited to those taken from Figs. 1 & 2, as any valid method of improving the company's business performance was awardable. Only suggestions which were explicitly out of context e.g. suggestions that would apply to retail organisations only (*Lushcereal Ltd* is a manufacturer) were deemed unawardable.

Unfortunately some good and detailed answers stop short of achieving the highest of marks because they did not attempt a conclusion. A conclusion would allow the candidate to justify their recommendations, allowing them to gain Level 4 marks. Those who did attempt to justify their suggestions tended to do so in context (usually using the data provided) and gained a minimum mark of 11 out of 12.



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