

Cambridge TECHNICALS LEVEL 3

BUSINESS

Cambridge
TECHNICALS
2016

Feedback on the January 2018 exam paper
(including selected exemplar candidate answers
and commentary)

Unit 3 – Business decisions

Version 1

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INTRODUCTION

This resource brings together the questions from the January 2018 examined unit (Unit 3), 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 5, 6(a) and 7.

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 3: Business decisions
Friday 12 January 2018 – Morning
Time allowed: 1 hour 30 minutes

You must have:
• a clear copy of the pre-release (insert C424)

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.

INFORMATION

- The total mark for this paper is 60.
- The marks for each question are shown in brackets [].
- This document consists of 12 pages.

FOR EXAMINER USE ONLY	
Question No.	Mark
1	10
2	10
3	10
4	10
5	12
6	10
7	10
Total	60

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Business

Unit 3: Business Decisions
Level 3 Cambridge Technical Certificate/Diploma in Business
05834 - 05878

Mark Scheme for January 2018

Oxford Cambridge and RSA Examinations

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Business

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 3: Business decisions

INSERT
Friday 12 January 2018 – Morning

INSTRUCTIONS FOR LEARNERS

- This is a clear copy of the pre-release material which you should 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

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

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

- ability to perform accurate calculations applying business concepts
- good knowledge and understanding across the entire unit, in particular of how businesses use information to help them make decisions
- the ability to apply this knowledge to the context in the Pre-release material when answering questions
- the ability to apply content from Unit 1
- the ability to analyse and to evaluate.

Sadly, some candidates exhibited a significant lack of knowledge of the subject and/or limited ability to either apply or analyse it; possibly indicating that they have been entered for the examination too early in their course of study. Given that candidates have limited resit opportunities, Centres should ensure that candidates are fully prepared before taking this assessment.

Centres should note that all questions in this paper are based on the context in the pre-release material. Questions are drawn from all five sections of the specification.

Two questions on this paper are high-tariff extended-response questions worth 12 and 16 marks respectively. Candidates need to demonstrate the skills of analysis (Level 3) and evaluation (Level 4) to gain the highest marks. An analytical response must contain implications for the business, for example 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 in the pre-release scenario will be rewarded more highly.

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>

Question 1

Answer **all** the questions.

- 1 (a) *Gateway Revision Ltd* makes many business decisions. Business decisions can be classified into three categories:

- strategic
- tactical
- operational.

Complete the table below by naming the type of business decision being made in each of the following examples. To help you, the first example has been completed for you.

Example	Type of business decision
Decision to allow writers to work from home	<i>Operational</i>
Decision to expand the product range in order to enter a new market	Strategic
Decision to replace warehouse staff with new technology	Operational
Decision to reduce prices to 10% below those of a competitor	Tactical
Decision to replace an existing supplier with one that is cheaper	Operational

[4]

- (b) Explain, using a relevant example, how each of the following could impact on *Gateway Revision Ltd's* decision-making.

- (i) Opportunity cost

Responses include:

Opportunity cost:

- the cost of the next best opportunity foregone
- an alternative given up when making a decision.

Opportunity cost

Opportunity cost is the cost of the next best alternative foregone when making a decision (1). For example *Gateway Revision Ltd* can afford to implement either Option 1 or 2 but not both (1).

Award 1 mark for the idea that the opportunity to pursue an option is lost when an alternative is chosen.

[2]

- (ii) The core competencies of *Gateway Revision Ltd*

Core competencies:

- a combination of multiple resources and skills that distinguish a firm in the marketplace
- a set of skills or production techniques that help the firm to add value.

Core competencies

Core competencies are the combination of skills and resources that enable a business to stand-out from its competitors (1). For example *Gateway Revision Ltd* needs to decide how best to utilise the skills of their writers together with printers to produce revision guides (1).

Award 1 mark for the idea that a core competency helps a firm appear different to its competitors.

[2]

Mark scheme guidance

Question 1(a):

One mark for each correct response.

Question 1(b):

For each criterion: one mark for understanding of the criterion plus one mark for an example of a relevant decision for *Gateway Revision Ltd*.

Examiner comments

Question 1(a) – Most candidates demonstrated some understanding of the differences between strategic, operational and tactical decisions although relatively few responses achieved full marks.

Question 1(b) – Some candidates had an understanding of both opportunity cost and core competencies but few were able to apply them to the context.

Mark scheme guidance

Question 2(a):

Up to two marks.

No workings required.

Award full (2) marks for 24.08. % not required.

Accept all variants with correct rounding e.g. 0, 1, 2 dp.

Workings should only be marked if the final answer is incorrect. In which case award max one mark for the correct formula, if seen, whether in words or numbers.

Question 2(b):

Award one mark for each of four valid points.

Do not accept 'Gross Profit has increased' – must refer to ratio for the mark.

OFR applies to Gross Profit Ratio 2017.

Examiner comments

Question 2(a) – Most candidates correctly calculated the gross profit ratio.

Question 2(b) – Most candidates correctly identified the changes in both the gross profit and net profit ratios. Some were able to identify other relevant data from the information given, e.g. that sales revenue had fallen. Relatively few offered an analysis that linked changes in the ratios to changes in particular business costs (e.g. cost of sales or overheads).

Question 3

- 3 Jason believes that if either **Option 2 – Extend the product range** or **Option 3 – Expand into overseas markets** are chosen, new writers will need to be hired.

- (a) Explain **two** ways a skills audit could help *Gateway Revision Ltd* with its workforce planning.

1. **Responses include:**

- identify skills gaps of existing workforce
- identify skills that new employees will need to possess
- identify training and development needs
- indicate extent to which present workforce is able to meet the business' requirements
- help to produce job description/person specification for new roles.

2.

Example response (**contextual response**):

- ... *Gateway Revision Ltd* will be able to identify any gaps in the skills of the existing writers **(1)**, this will help them to identify whether they need new writers **(CONT)** **(+1)**.

... Example response (**non-contextual response**):

Gateway Revision will be able to assess whether the existing workforce have the skills needed to perform their job roles **(1)** and if not, they can identify the training needed to close the gap.

[4]

- (b) Explain how on-the-job training could be used to support a new employee at *Gateway Revision Ltd*.

Responses include:

- new employee could observe from an experienced colleague
- new employee could receive coaching from an experienced colleague
- new employee can ask questions of an experienced colleague
- new employee can learn whilst performing their new job role.

Example response (**contextual response**):

A new writer can learn whilst performing their new job **(1)** this will give them immediate feedback on whether they are able to write suitably for school-age readers **(CONT)** **(+1)**.

Example response (**non-contextual response**):

A new employee can learn whilst performing their new job **(1)** this will give them immediate feedback on whether they are able to do their job adequately.

[2]

Mark scheme guidance

Question 3(a):

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

In each case, context required for full (two) marks.

Question 3(b):

One mark for a correct identification, plus one mark for explanation.

Context required for full (two) marks.

Examiner comments

Question 3(a) and (b) – Most candidates had relevant knowledge of a skills audit and on-the-job training. Relatively few were able to explain how these would support the activities of the business in the case study.

Questions 4(a) and (b)

4 The table below shows sales data for 2017.

	Number of GCSE revision guides sold	Three-month moving average
January	2563	
February	2680	
March	2972	2738.33
April	3659	3103.67
May	4208	3613.00
June	2596	3487.67
July	1580	2794.67
August	1284	
September	2370	1744.67
October	2689	2114.33
November	2460	2506.33
December	2235	2461.33

(a) Calculate the three-month moving average for August 2017.

Show your workings

Indicative content (Lagging moving average):

(June + July + August) \div 3 (2596+1580+1284) \div 3 = 1820 (2)

Award full marks for the correct answer: 1820.

E.g. 1820 (2)

E.g. (June + July + August) \div 3 (1)

E.g. 1284+1580+2596 \div 3 = 3729.33 (1)

Indicative content (Centred moving average):

(July + August + September) \div 3 (1580+1284+2370) \div 3 = 1744.666667 (2)

Award full marks for the correct answer without any supporting calculation.

Allow any valid rounding.

E.g. 1745 (2) 1745.7 (2)

(July + August + September) \div 3 (1)

E.g. 1580+1284+2370 \div 3 = 3654 (1) (incorrect BODMAS)

Three-month moving average for August 2017 = guides

[2]

(b) Explain why it is not possible to calculate February 2017's three-month moving average.

Responses include:

- there is insufficient data
- the last three months' figures are needed
- December 2016 data is not given.

Exemplar response:

Data for the current month and the previous two months is needed (1) and there is only data for January and February (1).

We need the figures for February, January and December (1) and the data for December is missing (1).

[2]

Mark scheme guidance

Question 4(a):

Up to two marks. No workings required.

The specification requires learners to use Time Series Analysis to calculate and interpret moving averages. The figures in the table have been calculated using a Simple Lagging Moving Average. Whilst we would expect candidates to recognise this and use this method, any valid Time Series Method used to calculate the value for August should be credited; for example the use of a Centred Moving Average.

Award full (2) marks for a correct answer

Workings should only be marked if the final answer is incorrect. In which case award max one mark for the correct formula, if seen, whether in words or numbers.

Award max 1 mark if all correct **except** for incorrect application of BODMAS – e.g. $2596+1580+1284 \div 3 = 4604$ (1) (i.e. incorrect application of BODMAS).

Question 4(b):

One mark for a correct identification, plus one mark for explanation.

Reward alternative responses e.g. those based on a different moving average method.

Examiner comments

Question 4(a) – Most candidates were able to correctly calculate a three-month moving average for August. Most candidates calculated a lagged moving average, using the values for June, July and August. A small minority of candidates used a centred moving average using the values for July, August and September. Both methods were rewarded. Centres should note that although the specification does not name a method, centres should ensure that learners are able to calculate either a lagged or a centred moving average. No other method is required.

Question 4(b) – Most candidates were able to recognise that there was insufficient data given to calculate February's moving average (using a lagged moving average). Relatively few explained that this was because of the absence of data for December 2016.

Question 5

- 5 If *Gateway Revision Ltd* decides to go ahead with **Option 3 – Expand into overseas markets**, Sonia will need to decide what types of books to produce for each overseas market it begins to operate in.

Analyse the advantages and disadvantages to Sonia of using:

- qualitative information
- quantitative information

when deciding what type of books to produce for the South African market. Which type of information will be of greatest benefit to Sonia? Justify your answer.

[12]

Use level of response criteria.

Responses include:

Qualitative information:

- enables specific customer attitudes to be explored in depth
- allows information to be expanded upon e.g. by receiving answers to follow up questions
- can enable information to be collected from focus groups
- can enable the researcher to explore detailed issues quickly without worrying about sampling issues
- can be time-consuming and expensive to collect data
- results may not be representative of the population.

Quantitative information:

- can obtain information from large groups of individuals
- can be more representative (less biased) than qualitative data
- can be easily analysed statistically
- harder to obtain information on people's reasons for their actions
- questionnaires may not offer potential responses that match the interviewee's own preferences.

Example response

Quantitative information can be used to obtain large quantities of information (**L1**) for example by giving a questionnaire to a representative sample of the population (**L2**). This will enable Sonia to find out the preferences of the South African market which will enable her to offer products that meet their needs (**L3**). However a problem with quantitative data is that it may not enable Sonia to obtain a detailed understanding of the opinions of the South African consumers (**L1**).

- © OCF To remedy this she could conduct a number of focus groups with selected South Africans (**L1**) and this could enable her to ask detailed questions and if needed, follow up questions to enable her to find out their detailed opinions on existing books and what they would like from *Gateway Revision's* products (**L2**). This would make it more likely that *Gateway Revision's* products would have a competitive advantage resulting in a good level of sales (**L3**). Overall Sonia will need to use a mixture of both quantitative and qualitative data, however qualitative data is likely to be the most important to *Gateway Revision Ltd* because the business will be operating in a competitive market with limited knowledge of the specific customer needs of the South African (**CONT**) customer. The South African market is very different to the UK market and qualitative information with its ability to provide in depth opinions and guidance should help *Gateway Revision Ltd* tailor its books to the specific needs of this market. Books that are tailored to the specific needs of the market are likely to prove more useful to pupils and teachers and are, therefore, more likely to encourage them to buy *Gateway Revision Ltd's* books rather than the competitors' (**L4**).

Mark scheme guidance

NB Contains two embedded marks from Unit 1 LO2: Functional areas of business.

Levels of response:

Level 4 (10–12 marks)

Candidate evaluates which type of information will be of greatest benefit.

Level 3 (7–9 marks)

Candidate analyses advantages or disadvantages of qualitative or quantitative information.

Level 2 (4–6 marks)

Candidate explains advantages or disadvantages of qualitative or quantitative information.

Level 1 (1–3 marks)

Candidate identifies advantages or disadvantages of qualitative or quantitative information.

Examiner comments

This question required candidates to discuss the benefits and drawbacks of using quantitative and qualitative data to help decide whether or not to enter an overseas market. Responses that identified benefits or drawbacks of either method gained Level 1 marks. Responses which then explained how these benefits/drawbacks might affect the decision or the information obtained gained Level 2 marks. To achieve Level 3 responses needed to link this to the impact on the business; for example in terms of how obtaining detailed opinions of customers in the South African market could help the business identify gaps in the market and so gain competitive advantage or increased sales revenue. Those who were able to build on their analysis by making an overall judgement as to which of the two methods would be preferable and basing this on a sound rationale achieved a Level 4 mark.

Weaker responses either showed a lack of understanding of quantitative and qualitative data (for example by confusing them with primary and secondary data) or an inability to develop basic ideas (e.g. qualitative data being time consuming to collect or difficult to analyse). These responses scored very low marks and rarely gained more than Level 1 marks for identifying relevant knowledge.

Exemplar Candidate Work

Question 5 – Low level answer

- 5 If Gateway Revision Ltd decides to go ahead with **Option 3 – Expand into overseas markets**, Sonia will need to decide what types of books to produce for each overseas market it begins to operate in.

Analyse the advantages and disadvantages to Sonia of using:

- qualitative information
- quantitative information

when deciding what type of books to produce for the South African market. Which type of information will be of greatest benefit to Sonia? Justify your answer.

[12]

Qualitative Information is ~~to do with~~ ^{connected with} common sense
 For example getting a estimate of other people's opinions
 This means that qualitative information is non
 numerical data. Means quantitative data is based
 on numbers. For example numerical data

^{quantitative information}
 The advantages of quantitative data is that it's
 easier to see for example you can change numerical
 data into graphs to easily see out the
 information you desire. This means that
 quantitative information is flexible to use. There,
 the advantage of quantitative information is that
 it is easy to track.

A disadvantage of quantitative information is that there is no opinion based information included. For example only ~~relevant~~ ~~data~~ ~~can~~ only suitable people can answers can be given. The disadvantage of quantitative information is that there is no ~~any~~ ~~subject~~ ~~issues~~ given.

One advantage of ^{Qualitative} ~~quantitative~~ information is that it allows people to give their opinions. For example surveys. This means opinions of ~~me~~ ~~customers~~ ~~is~~ ~~delivered~~ ~~to~~ ~~customers~~ ~~thoughts~~ ~~on~~ ~~the~~ ~~business~~.

A disadvantage of qualitative information is that it's biased. For example customers in their own opinions or in what they think others may think answers. This means that ~~they~~ ~~and~~ ~~their~~ ~~points~~ ~~of~~ ~~view~~ ~~are~~ ~~not~~ ~~the~~ ~~only~~ ~~one~~.

Commentary

This is one of two questions on this paper that are marked using Levels of Response marking. Level 1 marks are awarded for valid points of knowledge. In order to achieve Level 2 these points would need to be developed to show understanding. Level 3 is triggered by analytical development, for example by constructing a chain of argument detailing how the points identified would impact on the performance of the business. Level 4 is reserved for responses which offer an assessment/judgement based upon valid reasoning; in this case this would be achieved by providing valid reasons why one type of information would be preferable to the other. Level 4 can only be awarded if learners have offered some analysis (i.e. have achieved Level 3).

The first two paragraphs identify three relevant points of knowledge about qualitative and quantitative data. Each of these is annotated as having achieved L1 (Level 1). None of these points are subsequently developed and there is no valid analysis of their advantages or disadvantages. The rest of the response contains points that are either repetition of points previously made or incorrect statements. These are annotated as RPT (repeat) or X (incorrect). A top Level 1 mark of three was awarded.

Had the response, for example, explained how a graph could be created from quantitative information or explained how qualitative information could be used to obtain opinions then a Level 2 mark could have been awarded.

Exemplar Candidate Work

Question 5 – Medium level answer

- 5 If Gateway Revision Ltd decides to go ahead with **Option 3 – Expand into overseas markets**, Sonia will need to decide what types of books to produce for each overseas market it begins to operate in.

Analyse the advantages and disadvantages to Sonia of using:

- qualitative information
- quantitative information

when deciding what type of books to produce for the South African market. Which type of information will be of greatest benefit to Sonia? Justify your answer.

[12]

Quantitative information is ~~needed~~ ~~is~~ numerical information gathered to show the amounts of profit or loss that a business could potentially make. An advantage of this information is that ~~it is~~ ~~not~~ they can't be misunderstood as they are calculated and there are no opinions involved. This numerical information will be advantageous in helping to decide whether the amount that will be invested in the ~~expand~~ expansion into overseas markets is worth it. Additionally, it would help Sonia to ~~invest~~ see what types of books have previously been successful in the South African market and thus help with

The decision of the type of book. However, this could potentially be hard information for Sonia to find as revision books are not already provided in large quantities and therefore not being able to access this type of information. On the other hand, the venture capitalist could offer Sonia with numerical info about the books sold in South Africa as it can be assumed the the information would be more accessible to firm.

Qualitative information is data gathered by conducting primary and secondary research to find out what is more desirable to the public. This type of information is based on opinions and feelings of the public and it could be ~~beneficial~~ beneficial for Sonia as she will get ~~direct~~ direct opinions on the type of ~~product~~ book that students in South Africa would buy and need the most.

Question	Part	
5		<p>However, this can information can be misleading as students the barrier in the language could potentially make this information not relevant.</p> <p>In conclusion, I believe that qualitative information will be of greatest benefit to Sonia as it it provides detailed information from directly from the target market and and they are the ones who are going to be buying the revision guide. It is also more up to date than quantitative information as as they'll have to use previous sales numbers and they might provide Sonia with inaccurate information unlike qualitative information data.</p>

Commentary

This response offers a number of knowledge points and these are annotated as L1 (Level 1). Some of these points of knowledge are then developed by offering explanations but none of them is analytical. For example, the response identifies that qualitative information is based (in part) on peoples' opinions (Level 1) and that these opinions would be of benefit to Sonia as they would provide information on the books that the local market would want the most (Level 2). This is a weak explanation that just triggers the award of Level 2, this is because arguably the same benefit could derive from collecting quantitative information on preferences. There is no analysis offered, for example of the impact of this on the performance of the business; hence a Mark in Band 2 has been awarded (as indicated by the annotation L2).

To achieve higher marks the candidate would need to analyse the Level 2 point that they had made. For example, what is the benefit to Gateway Revision Ltd of finding out which books the local market want the most? As an example, any one of the following comments would have sufficed as analysis taking the response to Level 3 e.g. gaining more customers, higher revenue, greater cash inflows, breaking even faster or more profit

Exemplar Candidate Work

Question 5 – High level answer

- 5 If Gateway Revision Ltd decides to go ahead with Option 3 – Expand into overseas markets, Sonia will need to decide what types of books to produce for each overseas market it begins to operate in.

Analyse the advantages and disadvantages to Sonia of using:

- qualitative information
- quantitative information

1. What is qualitative & quantitative
2. Benefits of qualitative
3. Disadvantages of
4. +ve quantitative
5. -ve quantitative

when deciding what type of books to produce for the South African market. Which type of information will be of greatest benefit to Sonia? Justify your answer.

[12]

Qualitative information is information in words usually derived from using questionnaires etc to gather the information. Quantitative information is numerical information. The benefits of qualitative information is that it provides more in-depth answers as the questioner can give their opinion. This is a benefit because it will allow Sonia to have a ~~more~~ better understanding of her customer behaviour, which is important when going into a new market. A disadvantage of qualitative data is that is very easy to make the information biased, which ultimately means that the information isn't accurate which Sonia wouldn't want when choosing the most riskiest option. Sonia needs to be careful not to word any questioners in a way that gives her the answers she was looking

for or her own opinions. Otherwise it would corrupt the information which may lead to her making a poor decision and ultimately the downfall of trying to expand overseas.

Quantitative information is a lot simpler to handle and can be placed in graphs/tables. This is an advantage for Sonia as she could have a clear, visual representation which would allow her to spot trends and make easier decision making which hopefully leads to the success of the decision.

On the flip side a large amount of numbers could become very confusing for ~~for~~ Sonia. With loads of numbers comes the risk of human error without proper organization resulting in inaccurate results/tables and potentially a ~~bad~~ ^{bad} decision by that ~~to~~ may lead to a failure. Sonia must properly manage both her qualitative information and quantitative information in order to make the best possible decision on what type of book to make in order to be successful.

Commentary

This response makes a number of valid points which are annotated as L1 (Level 1). These points are then developed, in most cases offering a reason as to why the points identified would be of benefit to the business. These developed points are annotated as L2 (Level 2). These benefits are then developed further, in each case offering a reason as to why the benefit would matter to the business given the context of the decision being taken. Taken together, each of these three linked statements (L1 point, L2 explanation, additional development) form a connected chain which demonstrate analytical thinking which enable Level 3 to be awarded (as indicated by the annotation L3).

The response offers a conclusion, but this is merely a statement that both types of information are useful. Since the preceding discussion consisted of benefits of each type of information then the conclusion offers nothing new. This does not meet the Level 4 requirement to offer a reasoned judgement. Had the response offered an overall judgement as to which type of information would be more useful for the business then a mark in Band 4 could have been awarded.

To summarise: the response demonstrates some analysis, but this is relatively limited and is only reached on three occasions. No valid evaluation is shown. Consequently, a mid-Level 3 mark is awarded; Level 4 has not been reached.

Question 6

- 6 (a) Explain how a stock control chart could be used to manage inventory at *Gateway Revision Ltd.*

Responses include:

- a stock control chart shows information such as: desired maximum, minimum and lead time for stock
- the chart can be used to indicate when and how much stock to be ordered
- the stock purchase decisions will vary depending on changes to desired stock levels and supplier lead times.

Example response (**contextual**):

A stock control chart for books will show the maximum and minimum stock levels **(1)**. When stocks fall to the reorder level new books will need to be printed **(CONT)** **(+2)**.

Example response (**non-contextual**):

A stock control chart displays information such as maximum and minimum stock levels. **(1)** When stock levels reach the reorder level the business will order new supplies **(+1)**.

- (b) Explain how the use of radio-frequency identification (RFID) could help with inventory management at *Gateway Revision Ltd.*

Responses include:

- an RFID tag emits a unique signal which is read when it comes into close contact with a reading device
- RFID tags can be used to record when stock is moved into and out of a warehouse
- RFID tags can help to track the location of stock items.
- RFID enables stock movements to be monitored automatically

Example response (**contextual response**):

An RFID tag can be attached to each revision guide **(1)** to help Gateway Revision track **(1)** when books arrive from the printer and are then sent to a customer **(CONT)** **(= 3/3)**.

Example response (**non-contextual response**):

An RFID tag can be attached to each item of stock **(1)** to help Gateway Revision record when a stock item moves into and out of a warehouse **(+1)** **(= 2/3)**.

Mark scheme guidance**Question 6(a):**

One mark for a correct identification, plus one mark for a non-contextual explanation or two marks for a contextual explanation.

Question 6(b):

One mark for a correct identification, plus one mark for a non-contextual explanation or two marks for a contextual explanation.

Exemplar Candidate Work

Question 6(a) – Low level answer

- 6 (a) Explain how a stock control chart could be used to manage inventory at Gateway Revision Ltd.

At Gateway Ltd can see how much stock they have from the stock control chart and manage how much more stock or if they don't need anymore stock from that for that time period

[3]

Commentary

This question requires candidates to demonstrate knowledge of a stock control chart and/or how it could be used. The command word in the question is 'explain' and so a maximum of 1 mark can be awarded for relevant knowledge with an additional mark available for explaining how the chart can be used. Full marks are awarded for a response which places the answer in the context of Gateway Revision Ltd.

This response offers one relevant point (can see how much stock they have). Sadly, there is no attempt at explanation. An explanation of this point might address how the chart would enable the actual level of stock to be compared with a re-order level, resulting in action being taken to re-order stock when the actual level of stock falls to the re-order level.

Exemplar Candidate Work

Question 6(a) – High level answer

- 6 (a) Explain how a stock control chart could be used to manage inventory at Gateway Revision Ltd.

A stock control chart could show what stock has been sold, and what stock they have left. It shows when stock is low, therefore the business would know to order more. This allows Gateway Revision Ltd to always have a constant supply of stock to keep up with demand. [3]

Commentary

The response offers a valid point which is then explained well. The explanation is generic with no discussion of the impact on Gateway Revision (naming the business in the response is insufficient if, by removing the company name the response could equally apply to any other business). This answer would apply equally to all businesses with stock. A contextual response might, for example, explain how the reorder level would be set to reflect the time it would take the printer to print and deliver more books. A simple reference to 'books' or 'printing' would have sufficed to take this answer to full marks.

Centres are advised to encourage candidates to answer in context where possible. Any question that names the business, in this case Gateway Revision Ltd should be answered in context.

Question 7

- 7 Recommend which of the three options would best secure the long-term future of *Gateway Revision Ltd*. Justify your view.

[16]

	Option 1 Take over the printer	Option 2 Introduce a range of primary school books	Option 3 Expand into overseas markets
Capital cost	£50000	£90,000	£300,000
Impact on revenue expenditure	Reduced spending on printing costs	Increase due to expanded writing team	Increase due to cost of new operations
Payback	4 years	3 years	8 years
ARR	5%	15%	20%
Finance	Cash reserves	Cash reserves and Fixed rate loan 4.5%, 3 Year (debt funded)	Cash reserves and venture capital (equity funded)
Extra revenue?	None if printer stops providing services to other customers	From sales of new books	Sales of books in South African market
Ansoff matrix		Product development/ Diversification	Diversification Highest risk
Other risk factors	Increase in fixed costs for Gateway Revision resulting in higher break-even level of output.	Uncertain chance of successful entry into new market	Loss of full control due to 20% equity stake of venture capitalist
External influences	None	Changing government finance of education sector, changing importance of testing in primary schools	Trends in South African economy. Exchange rate risk – pound has recently weakened against rand

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Example response**e.g. from a financial data and general business perspective**

Of the three options, option 1 has the lowest capital cost but also the lowest ARR, option 3 has the highest capital cost but also the highest ARR (**L1**). This suggests that option 1 will be the safest option but also one that will have the smallest impact on the business. This is because option 1 does not involve a move into new markets but is simply a cost-cutting response to remaining in what could be a declining market (**L2**).

If option 1 is chosen then profits may well rise in the short term due to falling costs but if sales of secondary school books fall then the resulting fall in revenue may cause profits to fall again (**L3**). Both options 2 and 3 involve moving diversifying into new markets and so there is the potential for additional sources of revenue (**L3**).

Overall I would judge that option 2 is the best option. It is more risky than option 1 as it involves diversification (**CONT**) into a new market but this should result in a permanent source of additional income which will help secure the business' long-term future. It is also less risky than option 3 which also has considerably higher costs as well as some loss of control for Jason and Sonia (**L4**).

Mark scheme guidance

NB Contains two embedded marks from Unit 1 LO6: External influences and constraints and two embedded marks from Unit 1 LO8: Assess business performance.

NB: This question can be answered from a general business perspective or from the perspective of a specific pathway/function (or a hybrid of both). In all cases the same level of response criteria apply.

Levels of response

Level 4 (13–16 marks)

Candidate recommends and justifies which option *Gateway Revision Ltd* should take.

Level 3 (9–12 marks)

Candidate analyses one or more options under consideration at *Gateway Revision Ltd*.

Level 2 (5–8 marks)

Candidate explains issues relating to one or more options under consideration at *Gateway Revision Ltd*.

Level 1 (1–4 marks)

Candidate identifies issues relating to decision making.

L4 evaluation – Award 13 marks for suggesting the most beneficial option for *Gateway Revision Ltd* with justification for the choice. Award 14 marks for suggesting the best option in context with justification. Award 15 marks for a detailed or specific contextual judgement of the most suitable option. Award 16 marks for a detailed *and* specific contextual judgement of the most suitable option.

Exemplar Candidate Work

Question 7 – Low level answer

- 7 Recommend which of the three options would best secure the long-term future of Gateway Revision Ltd. Justify your view.

[16]

I believe that of the 3 options, option 2 would be the greatest benefit in securing the long term future of Gateway.

Option 1 of buying the local printing firm I believe is the worst option for Gateway. The advantages to this option is that Gateway have more than enough cash reserves of £60,000 to buy the printing firm worth £50,000 without needing to get any loans. This means its quick and easy to obtain, and allows for Gateway to stop providing printing services

to their competitors like Pearson, allowing them to be more competitive. The disadvantage to this is that the current market that Gateway is in, is ~~falling due to~~ failing due to the new age of students being technological and favouring apps and other online sources. Investing in a failing market has a great chance of failure, and the risk is not worth the small ARR at 5%.

Option 3 of expanding overseas into South Africa could be a viable strategy for Success by going into a new market that is in need of Gateways books. The rapid growth of schools and the greater priorities of examinations in South Africa is a key point for success of this option with a possible ARR of 20% over the first 3 years of trading. However, this option would require a lot of work to go through with. Costs for this option would be £300,000 due to having the need for a regional office and warehouses in South Africa. Gateway only have £60,000 worth of cash reserves, meaning that other sources of finance are needed. To cover this they would gain help from a venture capitalist at the loss of 20% of their shares. And will also have an additional revenue expenditure of £100,000 a year to cover all their ~~expenses~~ ^{operational} costs and marketing costs. Even though the pound

Option 2 of ~~is~~ extending their product range ~~is believe~~ is the best option for Gate in books. I believe is the best option for Gateway. With this option, Gateway has the potential to be in double of their usual market which increases their chance of more sales.

Commentary

This is one of two questions on this paper that are marked using Levels of Response marking. Level 1 marks are awarded for valid points of knowledge. These could be valid interpretations of information in the case study (for example stating that option 1 is cheaper than option 2 is sufficient to gain a Level 1 mark). In order to achieve Level 2 the point would need to be developed to show understanding. For example stating that option 1 is the cheapest of the three options is sufficient to gain a Level 2 mark. Level 3 is triggered by analytical development, for example by constructing a chain of argument detailing how the points identified would impact on the performance of the business. Level 4 is reserved for responses which offer a recommendation as to which of the three options should be chosen, based upon valid reasoning. Level 4 can only be awarded if learners have offered some analysis (i.e. have achieved Level 3).

The response makes four valid points, each of which is annotated as achieving Level 1 (L1). None of the points is developed sufficiently to award Level 2. For example, the candidate correctly uses the information in the case study to identify that the business has more than enough cash reserves (£60,000) to purchase the printing business (£50,000); this achieves Level 1. The response then attempts to develop this by stating that this means it will be 'quick and easy' to obtain the finance. This is too vague to be a valid explanation. Had the candidate explained, for example, how applying for a loan would take time and would have no certainty of being approved, then a mark in Band 2 could have been considered. A number of items of information were given which were quotations from the case study these have been annotated as RPT (indicating that information from the case study has been repeated). Sadly, simply repeating what the exam board told the candidate does not gain a mark. The candidate needs to use the information in some way to merit the award of marks.

Exemplar Candidate Work

Question 7 – Medium level answer

- 7 Recommend which of the three options would best secure the long-term future of Gateway Revision Ltd. Justify your view.

[16]

I recommend that Option B is the best
 best secure the long term future
 of Gateway Revision Ltd. This is because
 Smith's company has a rapidly growing
 number of small clients. This
 means that Gateway Revision Ltd will have
 a steady flow of work and they can
 use their own market. One
 advantage of creating your own market
 is that the market may be full
 of work. This means that the
 business will be able to make full

from the client. Another advantage is
 that out of all three options the
 most profitable is Option 3 with
 an ARR of 20% which means that in
 the long term the business will
 be more profitable. One disadvantage
 of Option 3 is that the venture
 capitalist has offered to invest £10,000
 in return for a 20% equity stake in
 Gateway Revision Ltd. This means that 20%
 of the business will be taken by the VC
 2. Another disadvantage is that if the
 business does not take control of the

The option of the most risky cost is
 not three options. As additional revenue expected
 will include 100,000 a year to cover the
 LUM of the new operators. In another
 situation if that is new United has
 will be made. This must that the cost
 at the start of industry will also 50,000
 cost related will be used. ~~Overall~~
 Option 1 is the least suitable
 for the business because it must be
 least profit by a ARR of 5% will also
 another situation if that is that business
 cost related will be taken from the
 start will cost it to live 10,000
 will then the start will be able
 to invest in other part of the business.

An advantage of using option 1 is that
 buying the latest printers from the
 man in relation in both the market.
 Looking Review the company currently spends
 on printers costs.

Commentary

The candidate states correctly that of the three options option 3 is the most profitable; this is a valid comparison across all three options and so achieves Level 2 (as indicated by the L2 annotation). The candidate attempts to develop this point but their statement that this means it will make the most profit from taking this option is a repeat of the previous point and so does not demonstrate any further links in the chain of argument. A further Level 2 point is made by stating that option 1 will result in the least profit being made. Most of the rest of the response repeats, but does not use, information found in the case study and so does not achieve any further credit. The candidate is awarded a top Level 2 mark of eight.

To achieve a Level 3 mark the candidate would need to offer some valid analysis. For example, by exploring how, despite being the most profitable, option 3 would carry the greatest risk due to the unfamiliarity of the owners of Gateway Revision with the overseas market and the reliance on the support of a new investor.

Exemplar Candidate Work

Question 7 – High level answer

- 7 Recommend which of the three options would best secure the long-term future of Gateway Revision Ltd. Justify your view.

[16]

Option 1, being to buy out the local printing firm would be the option to dismiss straight away. This is because the insert states that the challenge is that the UK market is ~~the~~ undergoing "rapid change", one of these changes being that most students now have access to smartphones and tablets, causing the demand for printed Revision guides to drop dramatically, ~~the~~ and a demand for digital ~~the~~ products ~~the~~ such as apps have been dramatically increasing.

This makes the idea of buying out the printing firm a step in the wrong direction as Gateway Revision ~~has~~ already ~~lost~~ lost market share to some of its competitor who embracing these new demands. This option would eventually prove to be the least profitable out of the three.

I believe that option 2, ~~to~~ extend product range, is the option that Gateway Revision ~~to~~ should ~~to~~ follow through. This is because this is an option that expands upon what they already know, not adding something alien.

to the business such as operating a printing firm or setting up overseas. This option would double ~~the~~ the size of their market within the UK where they already have a good reputation. This option also boasts the ~~the~~ shortest payback period of all three being at only three years in comparison to the ~~the~~ eight year payback period of option 3. This creates the potential opportunity to make more profits faster. Also, the ARR is 15% over the first five years of trading which is a lot higher than option 1's 5% but not that much lower than option 3's 20%. Also, by remaining in the UK market they are more ~~the~~ likely to ensure that their core competencies are being upheld which is creating Revision Guides that are not boring and written in a style that appeals to their target audience. It is easier to replicate that service in a market they know than overseas therefore keeping to the ethics that the business ~~is~~ was originally based upon.

7. Option 3 however also has its advantages. One advantage of option 3 is that it does boast the highest ARR at 20% over the first five years of trading. This means that in the long term option 3 could potentially prove to be the most profitable option. But this option is the most expensive to set up in the first place with the highest payback period.

Overall option 2 is the best as it balances level of risk with potential for higher profit better than that of option 3. Option 3 has the highest risk of failure as it treads unknown territory whilst option 2 successfully expands on known territory. Expanding the product range would successfully increase Gateway Revisions market share.

Commentary

This response identifies a number of points which are awarded either at Level 1 or Level 2. In this case, the award of Level 2 is for points which demonstrate a valid comparison of all three options (for example stating that option 3 has the highest ARR). The candidate develops their Level 2 point about option 3's ARR by correctly making an inference about the impact of this on the business' performance. Although weak, this is just sufficient to achieve Level 3 (as indicated by the L3 annotation). As a result of achieving Level 3, the response can be considered for Level 4. Level 4 is awarded for evaluation which builds from analytical comment. The recommendation in the final paragraph is deemed to be evaluative. It includes valid reasons as to why option 3 should be chosen and which are consistent with their previous analytical argument. These reasons are based on the context in the scenario, raising the mark to be awarded above the Level 4 threshold mark of 13. However, the reasons lack detail (for example none of them are developed or justified in any way) and so a mark of 14 out of 16 is deemed most appropriate.

To gain full marks the candidate needed to offer detailed contextual justification for the choice of option. One way of achieving this would be by explaining why Tania might wish to avoid high risk e.g. because since leaving teaching Tania relies on the profits of the company as her only source of income and so cannot risk the failure of the venture. This answer would add weight to the risk reduction argument in a way which is contextual and specific.



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