

Cambridge TECHNICALS LEVEL 3

BUSINESS

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

Unit 3 – Business decisions

Version 1

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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:

- good knowledge and understanding across the whole unit content
- an ability to analyse the business impact of decisions and the factors influencing business decisions
- an ability to perform accurate calculations and summarise numerical information
- the ability to apply relevant content from Unit 1.

It was pleasing to see candidates with a good understanding of the case study and an ability to apply it appropriately when answering questions. Compared with June 2017 and January 2018 candidates more generally gained marks from across the whole paper (with the exception of Question 2 where many candidates failed to achieve good marks).

Candidates generally performed better when they discussed the implications of the issues outlined in the case study rather than introducing new scenarios and contexts. For example, some candidates discussed what the business might do to decorate the new shop and discussed the potential impact of this on the business – sadly this fell outside the scope of the paper, which is to consider the implications for business decision-making of the issues identified in the case study.

Some candidates lost marks due to a failure to address the issues in the question. For example in question 4 a number of candidates were clearly aware of how the two factors identified would impact on business performance but failed to state whether profits would be increased or decreased as a result. In many cases the responses concluded by restating the question rather than directly answering it.

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, future performance and, in the case of Question 5, business decision-making. 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) Identify **two** changes in the external business environment that could affect future decisions made by *PACM*.

1.. **Responses include:**

 2..

• social factors	• political factors
• technological factors	• legal factors
• economic factors	• competition/market factors
• environmental factors	• actions of stakeholders.

[2]

(b) Explain how each of the following risk factors could affect *PACM*.

Financial risk

Responses include:
 Impact on *PACM*, e.g.:

• loss of revenue	• may not be able to finance the expansion
• rise in costs	• may not be able to pay employees/creditors
• increase in debtors/bad debts	• threat of bankruptcy
• worsening cash flow	
• may not be able to repay loans	

[2]

Risk of damage to the reputation of the business

Responses include:
 Impact on *PACM*, e.g.:

• loss of customers	• lower revenue/profits
• withdrawal of offers of finance	• may not be able to finance the expansion
• harder to recruit staff	

[2]

(c) Identify **one** internal stakeholder of *PACM* and state how they are likely to be affected by decisions made by *PACM*.

Responses include:
Internal stakeholder:

- employees
- managers
- directors.

[2]

Allow an example e.g. Patricia, Carlos, sales staff, cooks, delivery drivers.

Possible impacts:

- move to new premises
- change in job role
- redundancy
- promotion
- wage/salary increase/decrease.

Example response

A cook (1) might have to move to a new place of work (1). A manager (1) may receive a pay cut (1).

Mark scheme guidance

Question 1(a):

This question assesses synoptic knowledge from Unit 1 LO6: Understand the external influences and constraints on businesses and how businesses could respond.

1 mark for each of two valid external influences.

Accept any valid and plausible external influence.

Accept two examples from the same category.

Question 1(b):

For each risk factor:

1 mark for an impact. 1 mark for the consequences of this impact.

NB: Question asks for an explanation, so for 2 marks in each case the second point must be a development of the first (e.g. no second mark for two unrelated examples).

Question 1(c):

This question assesses synoptic knowledge from Unit 1 LO5: Understand the relationship between businesses and stakeholders.

1 mark for a valid internal stakeholder and 1 mark for stating how they might be affected by a decision made by PACM.

Examiner comments

Question 1(a) – Most candidates were able to offer two external influences on the bakery. Some candidates instead offered internal factors such as the actions of employees.

Question 1(b) – Most candidates understood that financial risks included issues such as a lack of finance for investment or an unexpected reduction in revenue. Good responses were able to fully answer the question by explaining an impact that this could have on the bakery. Weaker responses discussed the cause of the financial risk without considering the impact on the business.

For reputational risk, most candidates understood that this would most likely result in a reduction in the number of customers. Most responses were then able to explain the negative impact that this would have on revenue and profits. Weaker responses demonstrated some understanding of the causes of a poor reputation amongst customers without explaining an impact of this on the business.

Question 1(c) – Most candidates were able to identify an internal stakeholder and then state how they are likely to be affected by decisions made by the bakery. Weaker responses identified an external stakeholder such as customers.

Question 2

2 Carlos has produced the following figures to support **Option 2: Dedicated production facility**.

- Total net profit over 5 years = £180 000
- Project lifetime = 5 years
- Initial cost = £200 000.

(a) Calculate the average rate of return (ARR) for **Option 2**.

Show your workings

Indicative content:

$$(180 \div 5) \div 200 \times 100 = 18$$

Award 2 marks for the correct answer: 18

Award 1 mark for a place error (e.g. 0.18, 180)

Average rate of return (ARR) = _____ %

[2]

(b) Explain **one** benefit and **one** drawback to *PACM* of using average rate of return (ARR) data to support investment decisions.

Benefit

.....

Responses include:

Benefits of using ARR

- gives a percentage which can be compared (1)
- e.g with a target rate of return (1)
- e.g. with other investment projects (1)

[2]

Drawback.

Drawbacks of using ARR

- ignores when in the life of the project it starts to earn a return
- ignores the impact of inflation

Example response.

ARR gives a percentage rate of return which can be compared (1) with the amount of interest they could earn if the money were invested in a bank (1).

Takes into account profits over the lifetime of the project (1) unlike payback which only measures short-term time to break-even (1).

It doesn't take into account the time value of money (1) so during high inflation it will overstate the rate of profit (1).

[2]

Mark scheme guidance

Question 2(a):

Up to two marks:

Award full (2) marks for 18.

The % is shown in the response space so responses do not need to include the % in their own answer.

Question 2(b):

1 mark for a valid benefit plus one mark for an explanation.

1 mark for a valid drawback plus one mark for an explanation.

Do not accept generic benefits/drawbacks of investment appraisal. Marks must be for specific benefits/drawbacks of the ARR method.

Examiner comments

Question 2(a) – This was a straightforward question for candidates who knew how to calculate an average rate of return (ARR). Centres should aim to ensure that candidates have a good understanding of all the numerical and statistical tools listed in the teaching content including how to perform calculations and interpret results.

Question 2(b) – Very few candidates had prepared well for this question. Some offered benefits and drawbacks that were related to investment appraisal in general and not to ARR specifically. The most common drawback offered was that 'it is only an estimate'. Such responses did not achieve any marks. Candidates should be aware of the strengths and weaknesses of all the decision-making tools in the specification as not only can they be directly assessed, as here, but they are also relevant when answering Question 7 and discussing the information in the case study and its usefulness in choosing between the three options.

Exemplar Candidate Work

Question 2(b) – Low level answer

(b) Explain one benefit and one drawback to PACM of using average rate of return (ARR) data to support investment decisions.

Benefit Takes profitability into account which is an important business indicator.

[2]

Drawback Time and value of money does not take into account

[2]

Commentary

To achieve marks for this question, answers need to provide a benefit and/or drawback that is specific to the Average Rate of Return (ARR) method of investment appraisal. Responses that could equally apply to all other investment appraisal techniques were not credited. Responses which only state a valid benefit and/or drawback will achieve lower marks than responses which then explain them.

The benefit given is too vague as it could equally apply to any investment appraisal method.

The drawback given refers to the time value of money not being taken into account which is a valid drawback however this is then not developed further and so no explanation of this drawback is given.

To achieve a medium answer either a valid benefit could have been given (for example that the ARR provides a percentage value) or the valid drawback given could have been explained, for example by showing how this means that during a period of inflation the ARR will overstate the real rate of profit to be earned.

Exemplar Candidate Work

Question 2(b) – High level answer

(b) Explain one benefit and one drawback to PACM of using average rate of return (ARR) data to support investment decisions.

Benefit It works out the percentage of how much money you will get back. Meaning you can see if the project is profitable or not. [2]

Drawback It doesn't take into consideration of the ~~an~~ value of the money over time. Meaning the worth of it can be worth less in the future. [2]

Commentary

A valid benefit is given (a percentage value is returned) however the development given does not follow from this benefit as it could equally apply to any other investment appraisal technique.

A valid drawback is given which is developed by stating that the value of money can fall over time. Although the full relevance of this for investment appraisal is not made clear, there is sufficient relevant development for it to count as explanation.

To achieve full marks the benefit (returns a percentage figure) would need to be explained, for example by showing how the percentage could be compared with other projects, and chosen in preference to those where expected returns are lower.

Examiner comments

Good responses to this question gave one or two overall summary statements comparing the two sets of figures (for example the bakery has a higher absenteeism rate over the whole period, the bakery's trend is getting worse whilst the industry average is more constant) and then gave some supporting evidence by providing data that supported the identified trends. Weaker responses tended to compare each year directly without giving an overall comparison between the two sets of data.

Exemplar Candidate Work

Question 3(b) – Low level answer

(b) Explain one action that PACM could take to reduce its level of absenteeism.

One action PACM could take to reduce its level of absenteeism is with fair pay for all employees. This would make the employees feel like they are getting paid the right amount as other employees which encourages them to attend work. [3]

Commentary

To achieve marks for this question, the action given should be one that would specifically deal with a low attendance rate. Responses, such as this, which refer to pay in general, should not be credited as they could apply to circumstances other than a situation of high absenteeism.

To become a medium answer, a valid action should be given (for example a bonus that rewards high attendance) together with a reason why this might result in fewer days off.

Exemplar Candidate Work

Question 3(b) – High level answer

(b) Explain one action that PACM could take to reduce its level of absenteeism.

One action they could take, would be to change their leadership style, some of their staff may even be scared of Patricia! If people feel worried about how they will be treated at work it will lead them to not bother going in. By changing this, it may lower their level of absenteeism. [3]

Commentary

The response identifies a valid method (changed leadership style). The next point implies that the leadership style may be too authoritarian/harsh. The response then explains that if people are worried about how they are treated at work they may be reluctant to attend. This is a logical development of the action and so is a valid explanation of it. The final point simply repeats the question and so does not gain any credit.

To achieve full marks the response needed to extend the explanation, for example by showing how an improved leadership style would encourage workers to take fewer days off and so improve attendance.

Question 5

- 5 Carlos intends to complete an external business environmental audit to help decide whether **Option 2: Dedicated production facility** should be chosen.

Evaluate to what extent *PACM* should make completing an external business environmental audit for **Option 2** a priority. In your answer you should consider the advantages and disadvantages to *PACM* of using an external business environmental audit to help decide whether to choose Option 2.

[12]

Use level of response criteria.

Responses include:

Benefits include

- can identify strengths and weaknesses of the project
- can be compared with similar audits for the other options (if completed)
- more aware of factors influencing the success of the project
- more aware of business risk
- able to take appropriate remedial actions
- more information results in better decision-making.

Drawbacks include:

- time taken to complete the audit
- cost of completing the audit
- difficult to predict future with accuracy
- audit may be incomplete
- may create too much information making it harder to make a decision
- ignores internal factors.

Factors influencing whether it should be a priority:

Impact on the decision-making process e.g. speed, accuracy, cost

Example response

By carrying out the audit the business can identify potential risk factors (**L1**) and then decide whether any action should be taken to minimise them (**L2**). A drawback of carrying out such an audit is that it will take time and prevent Carlos from doing other management activities (**L1**) that could be a more productive use of his time (**L2**) and this could increase business costs more than is necessary resulting in a short-term fall in profitability (**L3**). However, by carrying out the audit the business can reduce the risk of external factors harming the business because it can take remedial action that could reduce costs in the long run (**L3**). For these reasons, I believe that Carlos should make an external environmental business audit a high priority but should make sure that it does not impact too much on the day-to-day management of the business whilst it is being produced (**L4**).

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Mark scheme guidance

Levels of response:

Level 4 (10 – 12 marks)

Candidate prioritises the use of an external business environmental audit to help Carlos decide whether to proceed with Option 2.

Level 3 (7 – 9 marks)

Candidate analyses the use of an external business environmental audit to help Carlos decide whether to proceed with Option 2.

Level 2 (4 – 6 marks)

Candidate explains benefits and drawbacks to a business of using an external business environmental audit.

Level 1 (1 – 3 marks)

Candidate identifies benefits and drawbacks to a business of using an external business environmental audit.

L4 evaluation – Award 10 marks for a non-contextual judgement. Award 11 marks for a contextual judgement. Award 12 marks for a detailed and specific contextual judgement.

L3 – Analysis of previous point.

L2 – Any explanation of benefits/drawbacks.

L1 – Look for benefits and drawbacks.

Examiner comments

This question was answered poorly by many candidates. The question asked for a discussion of the strengths and weaknesses of an external business environmental audit. Some candidates instead discussed the strengths and weaknesses of choosing option 2 and so gained few if any marks.

This question was well answered by candidates who knew what an external business environmental audit is and what its strengths and weaknesses would be to the bakery when considering option 2. Such responses tended to discuss the potential costs and time-delays introduced by conducting the audit and the extent to which it would be useful given that no such audit was apparently planned for the other two options. Such responses tended to conclude that its usefulness depended on the extent to which it would delay decision-making and whether or not similar exercises would be conducted for the other two options. Weaker responses tended to either state benefits and drawbacks without explaining their implications for the decision-making exercise, or mistakenly discuss how it would help the business discover the impact of the new production facility on the local eco-system.

Candidates should prepare for this examination by understanding that one extended response high-tariff question will test their ability to analyse and evaluate tools or information that are used to support business decision-making.

Exemplar Candidate Work

Question 5 – Low level answer

- 5 Carlos intends to complete an external business environmental audit to help decide whether Option 2: Dedicated production facility should be chosen.

Evaluate to what extent PACM should make completing an external business environmental audit for Option 2 a priority. In your answer you should consider the advantages and disadvantages to PACM of using an external business environmental audit to help decide whether to choose Option 2.

[12]

PACM would need to hire ~~one~~ two new full time bakers, completing an external business environmental audit would enable PACM to analyse the skills of external potential employees. PACM would be able to see if additional training was needed and find new skills that new bakers could bring to the business. New skills could mean new products which could make more profit for PACM, however could cause conflict with existing baker.

It is important that PACM use the audit to analyse the location of the new premises before choosing option 2 as PACM do not want competitors close by as this will affect their market share. PACM should find out if the area is busy or has any other businesses that may pollute the environment around the production facility. As this

could affect the quality and reputation of PACM.

Customer trends should be considered as wedding numbers are falling according to appendix 1. This decline will affect the profitability of option 2 despite it currently being PACM most profitable aspect. Although special events cakes ~~are~~ will not be affected by the number of marriage in England and Wales,

Commentary

To score well on this question candidates need to have a good understanding of the factors which make up an external environmental audit (principally the STEEPLE factors – social, technological, economic, environmental, political, legal, environment, technological, ethical) and competition as well as an understanding of the implications of conducted an audit on business operations and financial performance (in particular, the time and cost implications of the audit). In addition, the question indicates that only Option 2 is to be covered by such an audit, so there is the opportunity to discuss the usefulness of the audit when one is not being conducted for options 1 and 3.

This response discusses some aspects that are internal (personnel) and some that are not made clear (e.g. why pollution by others will harm this business' reputation). A number of factors are identified such as social trends (number of marriages) and the need to study competitors but their importance to the decision-making process is not explained. For example there is an attempt to link a fall in marriages to a change in profitability but no directional change in profitability is made (if anything it is likely to fall) and the reasons for this (decline in demand/sales) is not made clear. Consequently there is no evidence of valid explanations or analysis.

To become a medium answer there would need to be explanation of at least two points or some analysis of at least one point (in the manner indicated above in the discussion of marriage trends and resulting profitability of wedding cakes).

Exemplar Candidate Work

Question 5 – Medium level answer

- 5 Carlos intends to complete an external business environmental audit to help decide whether **Option 2: Dedicated production facility** should be chosen.

Evaluate to what extent PACM should make completing an external business environmental audit for **Option 2** a priority. In your answer you should consider the advantages and disadvantages to PACM of using an external business environmental audit to help decide whether to choose Option 2.

[12]

An external business environment audit would help PACM find out whether Option 2 is a good idea or not. As PACM have not decided on what they are going to do they could use the business environmental audit to find out more about the option including costs, and opinions. On the other hand an external business environmental audit on option 2 would only show this option when it should be compared to the other options meaning a decision could be made without considering other options.

Secondly an external business environmental audit would cost PACM money to carry out but PACM are already struggling as profits are continually falling, also PACM do not have much cash reserve so may struggle to fund audit. PACM could conduct some research on all 3 options instead of only prioritising 2.

Overall I believe conducting an external business environment audit is not a priority for PACM as I think they should consider all 3 options and do some research on all of them.

Commentary

A valid point is made at the bottom of the first paragraph concerning the audit only being conducted for option 2 and not 1 or 3. The significance of this is then explained but the attempt at extending this explanation into analysis is not successful as the point is merely repeated.

Another valid point about the cost of conducting the audit is made at the start of the next paragraph. The significance for the business is explained (they are struggling with low profits) but this point is not developed further into analysis as the implications for the business are not shown.

To make this a high answer there would need to be some valid analysis of the implications of the points made, either for the business or the decision-making process. For example the business struggling financially may choose not to bear the cost of the audit, resulting in poor decision making and a worsening of future financial performance.

Exemplar Candidate Work

Question 5 – High level answer

- 5 Carlos intends to complete an external business environmental audit to help decide whether **Option 2: Dedicated production facility** should be chosen.

Evaluate to what extent PACM should make completing an external business environmental audit for **Option 2** a priority. In your answer you should consider the advantages and disadvantages to PACM of using an external business environmental audit to help decide whether to choose Option 2.

[12]

The advantages to having an external business environment audit for option 2 is that they will be able to get a professional opinion and it should be guaranteed to be accurate, therefore it could give them more information to decide which option is best for PACM. Another advantage is that PACM are not trained or have knowledge to do it on their own and therefore by getting an expert opinion and feed back it could help them with their decision.

A disadvantage to this is that PACM are already concerned about their profits continuing to fall, therefore they may not have enough money to help them find someone who is good and specialised in this area of expertise. If they get a business environment audit it will increase their expenses which will mean their profits will fall more and they might find it hard to persuade the bank for a loan in order to expand into one of the three options.

Overall, I think if they are certain about doing option 2 they should do it, because it will expand their knowledge to what they are getting themselves into, however if they are not certain they should not waste their money on something that might not happen or be worth it, because they need to keep their expenses low so there is no point spending it on something that isn't their first choice.

Commentary

A valid point about receiving useful information is made in the middle of the opening paragraph however this is not developed. The rest of this paragraph contains nothing of credit, for example there is nothing in the case study or question to state that an outside expert will conduct the audit.

The answer is good in the second half where it discusses the impact of the costs of the audit on profitability and the potential that this impact may affect the investment of the project. This is reasonable (if slightly implausible) analysis. Having achieved Level 3 (analysis) the judgement offered at the end can be considered for the award of Level 4. The conclusion is sound offering advice on how to proceed in each of two cases, this judgement is sound and so a mark in Band 4 can be awarded. However, this conclusion does lack a detailed justification based on the business context.

To achieve full marks the judgement made needs to be both detailed and fully within the context of the business.

Question 7

7 Recommend which **one** of the three options under consideration at *PACM* would best secure the long-term future of the company. Justify your view.

[16]

	Option 1 Open a second shop	Option 2 Dedicated production facility	Option 3 Convert part of the existing shop into a café
Capital cost	£40,000	£200,000	£10,000
Impact on profit	Increased due to customers in new location	Increased due to greater production of wedding/ speciality cakes	Increased due to provision of new service
Payback	4 years	7 years	3 years
ARR	12.5%	18% (<i>allow OFR on learner's answer to 2a</i>)	3%
Finance	Bank loan variable rate: 4% above base rate	Fixed rate loan 5%, 10 Year	Variable rate loan of 4.5%
Extra revenue?	May double	From all products	From café sales
Ansoff	Market Development	Market Penetration	Diversification
External influences	Impact of higher interest rates?	Changes in market trends e.g. wedding cake sales	Changes in market trends e.g. café culture

Example response

e.g. from a financial data and general business perspective

Of the three options, option 3 has the lowest initial cost (L1) but also the lowest return (L1). There are risk factors which include some staff may not be keen on changing their job roles (L1) and so may resign (L2). Option 1 is less expensive than option 2 (L1). A variable-rate loan introduces uncertainty (L1) so if interest rates rise in the future then the cost of paying back the loan will increase (L2) and profits will be lower as a result (L3). Option 2 is the most expensive option (L1) but has potentially the largest increase in profits (L1). A drawback is that the payback period is the longest (L1) meaning that there is more time for changes in the external environment to have a negative impact on the profitability of the project (L2). For example, a reduction in demand for wedding cakes or an increase in competitors online could reduce revenue causing the actual payback period to be greater (L3). Overall Option 1 seems to offer the best balance between risk and reward because it involves reproducing the existing business model in another town (L4).

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Mark scheme guidance

This question assesses synoptic knowledge 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 *PACM* should take, based on analysis.

Level 3 (9 – 12 marks)

Candidate analyses one or more options under consideration at *PACM*.

Level 2 (5 – 8 marks)

Candidate explains issues relating to one or more options under consideration at *PACM*.

Level 1 (1 – 4 marks)

Candidate identifies issues relating to decision making.

L4 evaluation – Award 13 marks for suggesting the most beneficial option for *PACM* 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.

L3 – Analysis of previous point.

L2 – Any explanation of a point.

L1 – Look for valid points.

Note: Option 1 has an interest rate of 4% above base rate. Therefore, do not accept a statement that Option 1 has a lower interest rate than Option 3.

Do not accept statements that an option/action involves 'risk' unless the type of risk is identified and/or discussed e.g. financial risk, marketing risk (e.g. using reference to Ansoff), human resource risk (e.g. that some staff may resign over the changes).

Examiner comments

This high tariff question is based heavily on the information contained in the case study about the three options together with the information in Appendix 1 and 2.

Candidates who achieved a mark in Band 1 (1–4 marks) did so because they used the information in the case study to draw valid conclusions that would be helpful when making the business decision. For example identifying that option 3 was the cheapest option and option 2 had the longest pay-back period. Candidates who merely repeated information from the case study (e.g. by stating that option 2 had a payback period of seven years and option 1 had a payback of four years) gained no marks.

Candidates who achieved a mark in Band 2 (5–8 marks) did so because they explained the significance or usefulness of the information identified previously. For example the benefit to the business of choosing option 3 because it has the shortest payback period is that the business will start to earn profits from this option earlier than either option 1 or 2.

Candidates who achieved a mark in Band 3 (9–12 marks) did so because they analysed the implications of the information identified previously for the overall performance of the business. For example, the benefit to the business of choosing option 2 because of its fixed rate loan would be that it could budget for interest payments with certainty, resulting in more accurate cash-flow forecasting and hence improved cash-flow management, helping the business to remain solvent.

Candidates who achieved a mark in Band 4 (13–16 marks) did so because, having achieved Band 3 (analysis) they could offer a reasoned conclusion i.e. they gave valid reasons for their choice of which option the bakery should choose. The reasons, to be valid, would need to be based on the information in the case study. To achieve a mark above 13 the justification would need to be in context and to achieve a mark above 14 the justifications would need to have greater detail.

Reasons for poor performance on this question included:

- a discussion of the 'risk' involved in each decision that was too vague because it did not identify a valid reason for the risk (for example many candidates stated that option 2 was risky because it was the most expensive but the amount of the investment is not, of itself, a reason for risk). Discussion of risk should be based on one of the types of risk identified in the specification, for example, an option identified, as being diversification (Ansoff) would be more of a marketing risk than an option involving only market development.
- basing discussion on points not mentioned in the case study. For example, some responses discussed at length possible alternative uses for the original shop other than converting part of it to a café. This was not part of one of the three options being considered and so could not be a valid part of the discussion.
- a misunderstanding of the information provided. For example, many candidates stated that option 1 had a lower interest rate than option 3 despite the current UK base rate of 0.5% meaning that the two interest rates would in fact be the same. Also, some candidates assumed that customers would be visiting the new premises in option 2 despite it being stated in the case study that it would be a production facility in addition to the existing shop, which would remain as the retail outlet. Some candidates thought that option 2 had 'no ARR' despite being asked to calculate it in question 2.



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