

L3 Lead Examiner Report 1901

January 2019

**L3 Qualification in Business/
Enterprise and Entrepreneurship:
Business Decision Making
31589H**

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A grade boundary is where we set the level of achievement required to obtain a certain grade for the externally assessed unit. We set grade boundaries for each grade, at Distinction, Merit and Pass.

Setting grade boundaries

When we set grade boundaries, we look at the performance of every learner who took the external assessment. When we can see the full picture of performance, our experts are then able to decide where best to place the grade boundaries – this means that they decide what the lowest possible mark is for a particular grade.

When our experts set the grade boundaries, they make sure that learners receive grades which reflect their ability. Awarding grade boundaries is conducted to ensure learners achieve the grade they deserve to achieve, irrespective of variation in the external assessment.

Variations in external assessments

Each external assessment we set asks different questions and may assess different parts of the unit content outlined in the specification. It would be unfair to learners if we set the same grade boundaries for each assessment, because then it would not take accessibility into account.

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31589H Business Decision Making

Grade	Unclassified	Level 3			
		N	P	M	D
Boundary Mark	0	11	22	37	53

Introduction

This was the third time learners sat this unit, and centres had access to sample marked learner work, the 1801 paper, mark scheme and lead examiner's report, and the 1806 paper, mark scheme and lead examiner's report, to use when preparing learners. The assessment consists of an unseen case study with two activities. Activity one requires learners to study the data provided and then justify the selection of one of the two business opportunities identified. There is no requirement for learners to think up their own alternative options. For activity two, learners have to provide a summary of their choice of business and provide a rationale for the choice made. It is important that the choice made in activity 1, the report, is carried forward into the presentation summary, activity 2.

In this series, learners were given a scenario of a business, selling oil exploration equipment, for other businesses to use to extract oil and gas. Data was provided on a business opportunity which involved buying new equipment as part of a business expansion plan, or buying a competitor business. Learners had to decide which of these two options should be followed and could make their selection based on which gave the greatest return or the lowest risk. Oil market trends were provided, together with historical financial data for the business. Data was also provided on the costs and returns of each option so learners could carry out some financial analysis. Having chosen which option to use, learners needed to justify their decision. When making decisions such as these, it is expected that learners will use financial analysis as well as some of the business decision making tools identified in the unit specification. These include PESTLE analysis, SWOT analysis, Porter's five forces model or the 5C model. Other decision-making tools/models could also be used.

Learners are required to produce work for this unit using a computer. Centres have the option to submit work either in hard copy or electronically. An increasing number of centres are choosing to submit work using storage media such as USB flash drives.

A minority of centres are still submitting work without including signed authentication sheets and/or mark summary sheets. Centres are advised to review the administration guide for this unit which is available on the BTEC subject pages or in the unit 7 assessment administration guide, prior to submitting work to ensure that all administrative requirements are met. Failure to do so can lead to a delay in the assessment of work while these documents are requested from centres.

Activity 1: The report

For this first activity, learners are required to use the information provided, and prepare a report to the directors of the business about the two options they are considering.

The report must address both options and include an assessment of:

- the key factors and risks
- the implication for resources
- appropriate financial forecasts
- an interpretation of financial information using ratio analysis
- use appropriate decision-making tools to support learner recommendations

The report should be set within the context of the business and its stated goals.

Assessment Focus One: Information/data selection and interpretation

Most learners were able to take some reference to the case study information and select some appropriate evidence to support their decision. In a number of cases, there was a lack of relevance, or learners simply copied the case study information rather than use it to justify their choice of business expansion. This approach limited learners to marks at the bottom of band 2.

In the example below, the learner has taken the information provided and simply rephrased it without. The work does not go on to use this information to say why the business should expand or how the information might help identify the best method of expansion from the two options provided.

Wear products Ltd is one the most successful medium-sized private limited company that manufactures parts for equipment utilized in exploration and extraction of oil and gas. The company is well known for producing high quality products included with a variety of different material. Wear products Ltd is a well experienced company of 40 years which indicates they provide superb customer service in which a lot of customers recommend them to other potential customers who are looking for well experienced companies to spend their money for well guaranteed customer service. The company provides customers with a design advisory service that recommends customers on the best suitable material for the product being manufactured. The service is well honoured by customers and it adds worth on why customers purchase from the company instead of their competitors. The company in set in the secondary manufacture sector which means all the records and data aren't revealed and disclosed to the public.

In the following example, the learner has taken the information on the growth in demand for oil from the case study, and used this to suggest that this is the right time for the business to implement its goal of growing market share. This is an example of learners actually using the information provided and linking it to the goals identified in the case study.

Market overview, Current oil market

In the case study it is stated that demand for oil grew by over 5% from 2013-2016, which could suggest that it is valuable for WP Ltd business to expand and grow because it will help the business to increase their profitability margin and market share as the demands is increased, which will help WP Ltd business to increase their sales. It is also predicted that it might grow by 1.2% each year until 2021, which suggest that it is right opportunity for the business expansion because it will have positive impact on the business.

Information provided in the case study included the trend data on the demand for oil and on oil prices. This data could have been used to justify expansion of the business by either of the two options. However, when linked to business goal of increasing market share, the option on buying a competitor may give greatest benefit to Wear Products Ltd.

The data on the number of staff and the type of work undertaken by the business could have been used by learners to justify the purchase of new equipment. The information provided in the case study indicated this equipment would double

production capacity and also reduce the number of staff required. Learners could have suggested this option would not only increasing capacity and therefore had the potential to increase market share, but would also be an opportunity to reduce costs. Cost reduction would be appropriate as the past financial performance of the business, showed a reduction in revenues, gross and net profit and return on capital employed from 2014 to 2016.

Finally, a small number of learners misunderstood the case study and assumed that Wear Products Ltd. actually extracted and sold oil and gas. They then suggested that the business should expand when the oil price was high to maximise business revenues. Learners need to read and fully understand the information provided before starting to produce their reports.

Assessment Focus Two: Implications for resources based on decisions made

This assessment focus performed better than in the previous two series.

Some learners choose to use the specification headings and have sections in their reports on Physical, Human and Financial resources. This is an appropriate format to adopt.

Most learners were able to use the case study and discuss the costs and potential revenues of each expansion option. Some were also able to identify that the difference in the purchase price for either option was significantly more than the 2017 retained profit which the case study identified as capital to be used to help fund the expansion. Some even calculated the difference but then failed to identify how the shortfall might be funded.

Unsurprisingly, learners were able to discuss the advantages and disadvantages of buying the equipment or the competitor and were able to suggest the additional physical resources would help the business achieve its goals.

Finally, a number of learners were able to suggest that buying the competitor would increase human resources significantly and that these employees may not be trained to the standard of Wear Products Ltd.'s own employees. They were then able to link this to the information in the case study about the need for skill and expertise and suggest that the expanded organisation might find its reputation damaged if the new staff were not trained. Other learners discussed the impact on motivation of the existing employees if the equipment option was followed and some staff were then faced with redundancy.

Time is another resource. Some learners considered the six-month delivery period for the equipment to be a disadvantage that could lead to a lost opportunity for immediate growth by buying the competitor's business. They also made valid points that failure to buy the competitor could lead to someone else buying them which could cause future problems for Wear Products Ltd, and which may prevent them achieving their goals.

- Timing

With the piece of equipment in option 1, it is said to take 6 months for delivery from the date of order. Within this time, the business will still need to think of ways to increase market share as waiting half a year will allow other competitors to gain market share and by then there might be no point.

In regards to option 2, there is no time limit however another competitor or buyer can buy the business on sale therefore if Wear Products Ltd want to buy the competitor on sale they may need to be quick with it as it might go.

The following example shows how one learner is using the data on the new equipment and linking this to the goal of increasing market share.

In option 1 WP Ltd business has found new and more effective way to double the production of the business it might be effective way because the demand of oil has been increasing over past few years and by purchasing new equipment business will able to grow and produce more products as they might have large number of customer base because they have been operating the business for the past 40 years and might have increased number of loyal customer, therefore buying new equipment might help the business to increase their market share by meeting the needs and wants of their customers. The financial data is provided below:

To achieve the highest grades, learners need to discuss each type of resource in detail and link the discussion to a choice of either option and to the business goal stated in the case study.

Assessment Focus Three: Financial Forecasts

Most learners were able to use some of the financial data provided. Some discussed the financial trends provided in the accounts provided (figure 3). They commented upon the decrease in revenues, gross and net profit, and ROCE. Some learners suggested a link between the trends and the changes in oil price, suggesting a positive correlation between oil price and business profits.

	2014	2015	2016	2017
Revenues	£3 900 000	£3 800 000	£3 700 000	£3 950 000
Gross profit (GP)	£2 925 000	£2 470 000	£2 356 000	£2 705 000
GP margin	75.0%	65.0%	63.7%	68.5%
Net profit (NP)	£526 500	£342 000	£288 000	£370 000
NP margin	13.5%	9.0%	7.8%	9.4%
Capital	£3 200 000	£2 850 000	£3 200 000	£3 350 000
Return on Capital Employed (ROCE)	16.5%	12.0%	9.0%	11.0%

Figure 3

Many learners having discussed the historic trends, failed to use the data provided for each option and calculate the profits and profit margins for each option. These calculations would enable learners to make comparisons, not only between the options, but between an option and the historic data. By focusing only on the historic data, which had been provided, learners limited their marks to band 1.

It was possible from the data provided to calculate the gross and net profit, gross and net profit margin, ROCE, and the payback period for each option.

Year	2017	2018 predictions	
		Option 1	Option 2
Revenues	£ 3,950,000	£ 4,950,000	£ 5,200,000
Gross profit	£ 2,705,000	£ 3,465,000	£ 3,562,000
GP %	68.5%	70.0%	68.5%
Net Profit	£ 370,000	£ 800,000	£ 1,040,000
NP %	9.4%	16.2%	20.0%
Capital	£ 3,350,000	£ 4,400,000	£ 4,350,000
ROCE	11.0%	18.18%	23.9%
Payback		2.5 years	1.5 years

Of those learners who went beyond discussing historic financial data, most were able to calculate gross profit and gross profit margin, but when it came to calculating net

profits, a significant number incorrectly included the equipment cost or the competitor purchase price in the list of expenses and so concluded that the business would make a net loss for the year. It is vital that learners understand the elements which go to make up the main financial statements. They also need to demonstrate understanding of ratio analysis if they are to achieve the higher bands on this assessment focus.

Some learners attempted to produce a cash flow forecast, although this would have added very little value to the report. In a number of cases there was a clear lack of understanding shown. The 2017 profit was shown as opening balance. The revenue figures for the year were in some cases shown as monthly values. The running costs and start-up costs were correctly shown as outflows, and the balancing figure was labelled profit rather than closing balance. Further, no investment income was shown (loan), and these learners assumed the business would fund the expansion out of the revenue and profit made by the expanded business, without realising that the expansion could not take place without a loan or other source of investment income.

A few learners attempted to calculate ROCE for the new expanded business but in most cases these figures were incorrect as learners used the revenue rather than profit figure in the calculation, or they used the cost of the equipment or purchase price of the competitor rather than add this value to the 2017 capital figure. Again, it would be beneficial if learners practice this sort of calculation when preparing for this task.

In the following example, the learner has used some of the data provided to try to justify a particular option, but they have failed to use the data to produce a forecast of the profits to be generated.

quality. However, if the company was to consider selecting this option in purchasing new equipment it would mean that they'll be a possible of the sales revenue in the first year increase to £4,950,000 and the cost of sales of £1,485,000. Also another drawback of purchasing new equipment is the total expenses would increase to £2,665,000 indicates that the company will be spending a lot on wages and the equipment. Finally another drawback the company will face if they consider selecting this option is that since they will already pay £700,000 for the equipment they would have pay more with the additional shipping price and the additional costs which is £350,000 associated with the equipment. This will come up to the total of £1,050,000.

In this next example, the learner has appended their financial calculations to the report, and have discussed these within the report when justifying their choice of expansion method. However they have made a mistake and have called the net profit

margin ROCE, again showing a lack of basic financial knowledge that is required in this unit as well as Unit 3.

	option 1				option 2	
revenue	£4,950,000				£5,200,000	
cost of sales	£1,485,000				£1,638,000	
gross profit	£3,465,000	AF3			£3,562,000	AF3
expenses	£2,665,000	AF3			£2,522,000	
net profit	£800,000	AF3			£1,040,000	AF3
reco	16.16%	AF3			20%	AF3

By choosing option 2 there will increase in sales revenue as it will more because in option 1 they will only be able to make revenue of £4,950,000 whereas by choosing option 2 they will be able to make then profit of £5,200,000 which is £250,000 more than option 1. Therefore, buying out new business they will able to increase revenue and they will also be able to reach large number of customer base and the return on capital employee is also be more than option 1 because in option 2 the ROCE is around 16% whereas in option two it is 20%. Which could also mean that the business will be able to make more money by the money, which they have already invested in the business.

Buying out the competitor business will reduce the number of competition and business will able to make more sales and they will be buying the competitor business. It will also help the business to reach wide range of customer as they will able to have two shop floor, which will result in having more sales revenue.

In this final example, the learner has accurately calculated gross and net profit for each option and is using the results to formulate a decision on which option would be better. However, because no ratio analysis has been undertaken, the learner would be limited to bottom of band 3. For higher marks, learners need to show understanding and use of a wider range of financial concepts and forecasts.

It should be noted that some learners failed to do any calculations in the report but did provide some financial data in the presentation for activity two. These two activities are completely separate and marks cannot be awarded for this assessment focus unless the evidence is present in activity one.

Assessment Focus Four: Key factors, risks and alternative options

This strand often had strong, well thought through key points. Learners rationalised the key factors and risks. The majority completed a SWOT analysis although some simply used the case study data to insert as bullet points into a SWOT table. This method of displaying data demonstrates selection of data but does not show the detailed level of analysis that is required to achieve the higher mark bands and this form of presentation should be discouraged.

PESTLE analysis was the next most common decision-making tool used by learners. This particular case study was appropriate for a PESTLE analysis given the impact of governments on decisions whether to explore for oil and gas or when deciding environmental policies such as the imposition of taxes on pollution causing vehicles in city centres.

Very few learners produced a Porters 5 Forces analysis or a 5 C analysis models. As seen in the SWOT analysis, a number of the decision-making tools were completed in table format which prevented learners from providing a full explanation of the key issues in context.

There were a number of key factors and risks that learners could have discussed. These include:

- Reputation of the business and its 40 years experience
- The skill of the existing workforce
- The profits form previous years
- The increasing demand for oil
- The fluctuating price of oil and the political decisions that can affect the price
- The impact of supply and demand on the oil price
- The cost and time scale for the new equipment and the fact it was sourced from America and so would incur import duties and could be affected by exchange rate change
- The environmental move away from the use of fossil fuels
- The potential impact on motivation of existing employees if the equipment led to redundancies
- The possible damage to reputation if the competitor business employees were not as skilled

- The problems integrating two different businesses and the possible culture clash/resistance to change that the business could face.

Learners could have used any of these in their discussion of the key factors that would influence the choice of option to use for the expansion. Where learner simply listed these points either in a SWOT/PEST table, or where they failed to discuss the impact on the business in detail, marks were limited to band 2. For higher marks the discussion needed to be detailed, fully rationalised and with clear links to the business goal of increasing market share.

Common discussion threads included competition, costs, profitability, market trends, staff training, motivation, culture change and business reputation.

The following example shows a superficial SWOT analysis that lacks detail and uses very few key factors when discussing one of the options. This work is limited and achieves mark band 1.

Strengths – the new production equipment will enhance on their products which means the products develop into being good quality which meets the demands and standards of customers. Providing good quality products will lead to more customers purchasing from the company which comes more sales being generated and the reputation of the company increasing.

Weaknesses – the shipment of the equipment would take a long time to be delivered due to the equipment being manufactured in America which means the company has to wait which is time consuming.

Opportunities – repeatedly purchasing from that specific supplier which is well known for manufacturing high quality products would give the company the chance to produce a relationship between the company and supplier could lead to the company getting discounts from the supplier.

Threats – since the company has to wait for a long period of time for the equipment to be delivered, the company wouldn't be able to improve on their rejected products being developed to meet customer needs and demands. This will lead to customers being unsatisfied and switch to their competitors which indicates that the sales will eventually start to decrease.

The second example shows a well-developed analysis of the threats faced if option 2 were selected by the business as the preferred method of expansion. The learner makes a valid point then explains the impact in detail using business theory. This is part of the learners work for assessment focus 4, key factors and risks, and this work demonstrates what is required to achieve band 4.

Analysis of Option 2 Threats

- Dangers of inorganic growth

Option 2 can also be called inorganic growth. One problem with growing fast through takeovers like those that Wear Products is thinking of doing is that it would lose its personal touch for the business. I mean that the owner/founder maybe cannot manage the business because it is not growing steadily anymore because it might have become too big for them to manage alone. This is bad because it would rush and force the growth and stop the growth from being healthy and gradual, instead making it fast and rapid. This makes it a threat to the business because it will could cause problems with the maintenance of good communication channels and have a negative impact on staff motivation levels, which means that they might lose their reputation for high quality and business customers and their loyalty will leave the business.

- Dangers of current staff not liking change

One other threat is that it causes a lot of anxiety for staff as people do not like change and new members of staff with different training coming in to share out a workforce and often do not respond well to change. Staff may feel nervous and worried about what the new place to work will be like, therefore this may lead them to not be able to work as productive and well and this can lead to lack of motivation therefore cause problems in the short term for the business while the changes are happening such as low-quality products. This can become a big problem because if there is many low-quality productions, customers will not feel happy and satisfied and therefore may buy from competitors and other companies. This is very bad because it will mean a loss of customers and loyal customers therefore less profit and bad reputation. The new staff need to be trained properly and correctly; in order to fit in the current work force of wear products ltd. this can be a disadvantage as training costs money and time. this also has a high risk as employees may not get on with each other therefore they will not be able to perform and produce products up to excellent standard therefore customers of wear products ltd will not be happy and satisfied therefore they may want to buy from other competitors of wear products . This is bad and is a threat because Wear Products will have lost customers therefore it will mean that they will have lost future income as well.

Assessment Focus Five: Supported Decision Making

The marks awarded for this strand ranged from zero to full marks.

Some learners discussed the options available and then finished their report without making a decision as to which method of expansion should be used. A decision must be made if marks are to be awarded in this assessment focus.

Some decisions made were very simplistic such as 'Option 2 is better because the start-up costs are lower by £50,000 and the net profit is higher'. This approach did not allow learners to go past Band 1.

Other learners were able to present a decision based on their evidence for assessment focus 4. However, they were restricted to band 2 for a partially justified decision. This is because they failed to provide any financial analysis in the report. A decision cannot be considered convincing and drawing upon a range of evidence if there is no financial justification present. Similarly, a decision based only on finance would also be restricted to band 2.

The example that follows shows a very limited decision based on some simple points taken from the case study. There is no use of finance to justify the decision.

Recommendation

Overall option 1 is the most suitable option because internal growth is cheaper with less hassle. The benefits of this option the new production equipment will enhance on their products which means the products develop into being good quality which meets the demands and standards of customers. Providing good quality products will lead to more customers purchasing from the company which comes more sales being generated and the reputation of the company increasing. Whereas option 2 the company will be nowhere of enhancing on their products due to the business taking time on combining together with their competitor and adapting to the culture differences and their work policies. Taking option 1 will have faster production on enhancing products and not employee new employee because the new equipment requires less staff operating the equipment.

The following example was awarded the bottom of band 3. The decision is convincing, but the learner has made an error when calculating the profit of the external expansion option as they have simply added together the profit margins of the two businesses for 2017.

My Decision

In conclusion, I think that the best option to increase market share for the business Wear Products Ltd is option 2. I am proposing this as I believe buying the competitor on sale will allow them to gain more market share within the sector and remove a competitor. It will also increase production capacity and lead to an increase in sales revenue.

I also believe this is the best option to take to increase market share as in comparison to option 1, you will have to wait 6 months until your revenue and business starts to become better however with option 2 sales revenue will start to increase immediately and there is no waiting period. Moreover, I also believe this is the best option as the net profit at the end of the first year is significantly higher than option 1. The net profit is said to be £1,040,000 when taking the gross profit of £3,562,000 and subtracting the expenses of £2,522,000 from it.

Human resources will not be affected hugely as workers will only need to be trained in way of working however not to be trained to use any new material or equipment, therefore this won't take up the businesses time or money in order to do this. Physical resources such as IT and vehicles will not be affected and huge amounts of money won't need to be spent in order to update or add more.

Sales revenue will increase massively as both market share and customers from the competitor on sale will roll over onto Wear Product Ltd. This will allow them to achieve their goal of having more market share but also increasing revenue.

In addition, the competitor being sold had a net profit margin of 11% in the last year which is higher than years 2015 to 2017. The net profit margin of Wear Products Ltd in the last year was 9.4%, adding these both together would give the business a net profit margin of 20.4% which is over a fifth.

Assessment Focus Six: Presentation

Generally, the reports were well presented, logical and easy to follow. Most of the work contained headings, subheadings and clear paragraphs. Some used formal report structure with paragraphs numbering and an index sheet. Some reports contained errors in the body of the report, but few were obtrusive. Some learners lost marks in this assessment focus for the lack of use of relevant business principles and business management terminology.

Activity 2: The presentation

For this second activity, learners have to use appropriate software, to prepare a presentation to the entrepreneur.

The presentation should:

- summarise the recommendations made in the report
- give a rationale for the recommendations made

The presentation must be accompanied by speaker's notes or a script that will engage and convince the directors of the viability of the recommendations made.

Assessment Focus Seven: Business proposal overview

Most learners were able to refer to the data used in their report and the conclusion and make some key points that outlined the business idea.

Some learners failed to select the appropriate information from their report and gave a very brief outline. It is possible that these errors were due to the learners running short of time having spent too long producing the report in activity 1. Learners that copy and pasted large sections of the report into the presentation speakers notes also failed to score highly as they did not demonstrate ability to select appropriate data.

Assessment Focus Eight: Reference to costs/finance, key factors/risks

Many learners attempted to justify their business proposal, but some presentations were not in the form of a business pitch. In addition to this, to achieve band 3, the work must demonstrate sustained use of the data and finances to help justify the choice being made. Learners are reminded this activity is a summary of what has been produced before. There is no requirement to provide additional recommendations such as buy the competitor now and then the equipment in the future. Furthermore, the decision made in activity one must be carried through to this activity. The assessment focus marks are split between discussing key factors and risk, and discussing financial data/statements. To achieve higher bands the candidate must consider all four elements

Assessment Focus Nine: Presentation design and structure

Most of the learners created slides with a coherent structure and some appropriate speaker notes. Many used bullet points and kept slides clear and easy to read, leading to a professional appearance.

A few presentations failed to provide speaker notes, whilst others as stated earlier, simply copied large sections of the report and pasted these into the speaker notes section of the presentation.

Not all learners added clear headings to slides.

Some learners failed to provide any evidence for activity 2.

To achieve high marks in this assessment focus, the presentation should be professional, free from errors, and be likely to engage the audience/investors. This is not likely to be the case if financial data has not been provided in the presentation.

Summary

- Learners should read the case study to ensure they fully understand the data being provided.
- The set task will identify what evidence needs to be provided for activity 1, and learners should ensure they cover all of these points if they are to avoid losing marks. Some may wish to use this information as sub headings for the report.
- AF1 marks are awarded for selecting appropriate data from the case study. To achieve higher band marks, learners need to select a range of evidence from the case study and then use this when providing a reasoning for the option chosen.
- AF 2: Key resources required for the business option chosen should be identified and discussed. These should include Financial, Physical, and Human resources and any time constraints identified in the case study.
- AF 3: Financial forecasts will need to be completed, and these will vary depending on the activity and the data provided. These forecasts should form part of the decision-making process but remember there are other key factors to consider. Financial analysis should be attempted for each option, not simply any historic data provided. To achieve higher marks, a range of financial forecasts and concepts should be used such as GP, NP, GP%, NP%, ROCE.
- AF 4: Key factors, risks and options is the strand with the most marks available. Learners should ensure they cover all parts of the assessment focus in the report, not just key factors or risks. These should be discussed in detail, not simply bulleted.
- AF4 and AF5 is the part of the report where marks are awarded for the use of decisions making tools such as SWOT and PESTLE. There must be a final decision made and this should be justified throughout the report and also in a concluding section of the report.
- Activity 2 will require learners to provide a summary of the decision made in the report and a rationale outlining the decision making. There is no requirement for learners to provide alternative choices.

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