



Examiners' Report Lead Examiner Feedback

January 2021

Pearson BTEC Nationals
In Business and Enterprise (31589H)
Unit 7/6: Business Decision Making

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Introduction

- LE Report to be considered with the live external assessment and corresponding mark scheme
- This was the sixth time learners sat this unit. Centres have had access to sample marked learner work, the 1801, 1806, 1901, 1906 and 2001 papers, mark schemes and lead examiner reports when preparing learners. There was no assessment in June 2020 because of the cancellation of summer examinations due to the DfE directive amid widespread disruption of teaching and learning in schools and colleges.
- The number of learners sitting this assessment was greatly reduced as a result of the UK government making January 2021 vocational examinations optional.
- 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 decision 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 for a start-up business. Option one was for the setting up of a general electrical installation, servicing and repair business undertaking work for both local builders and individual customers. Data was provided on the business opportunity which involved start-up costs, typical pricing of electrical work, information on competition and some financial data including projected revenue, cost of sale and expenses. The second option was to set-up a business installing and maintaining electrical charging points for new and second-hand electric vehicles. Data was again provided on the market, competition, start-up costs, revenue, cost of sale and expenses. Learners had to decide which of these two options should be chosen and could make their decision based on a range of data including competition, long term viability or whichever gave the greatest return. Learners were expected to carry out financial analysis of each option such as gross and net profit, profitability ratios, return on capital employed, cash flow forecast or a break-even 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 together with 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.

Introduction to the Overall Performance of the Unit

- In this sixth sitting of the paper, the scenario of a redundant electrician deciding on which future business opportunity to follow would have been familiar to many learners, although analysis of the data did not require any prior knowledge of the market. Many learners were able to carry out simple calculations of costs and revenues, but as in previous series, a surprising number failed to carry out any financial analysis, instead some copied out the table of financial data provided in the case study. These learners therefore lost marks from Assessment Focus three but their justification of the choice made was also limited and therefore they also lost marks for both Assessment Focus four and five. Learners need to use the data provided to carry out their own forecast of profitability or return on investment if they are to achieve higher marks in this paper.

Activity 1: The report

For this first activity, learners are required to use the information provided, and prepare a report to the owner of the business opportunity 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 goals. The identified goals were to break-even in the first year of trading and, in the future, grow into a successful private limited company.

Assessment Focus One: Information/data selection and interpretation

Most learners were able to make 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 opportunity. This approach limited learners to marks at the bottom of band 2 in the mark scheme.

In the example below, the learner has taken the information provided and restated it. They identify the type of products that Hasan would install, the amount of competition, Hasan's previous skills and experience, projected revenue for the business and the market value and growth potential. The work does not go on to say *how the information might help identify the best option to follow*, and was awarded 4 marks, mid band 2.

The first option Hasan has is to start a business providing general electrical installation, servicing and repairs for both individual customers and commercial customers. The general electrical contracting market covers any electrical work within a building. This means the workers would help customers with electrical cable installation, lighting, power sockets, wireless networks and fire detection or security systems. From the industry trends it shows that General electrical contracting competition in the market is fierce. As the five largest electrical contracting businesses control about 10% of the total market. There has been an increase in the number of smaller independent businesses operating in this certain market. In addition, the small independent businesses have been started by workers who were previously employed by an electrical contractor. So, that would show that they would have many more experiences as they would have built up many skills and qualities the business has. Being a self-employed contractor can expect to achieve sales turnover of between £150,000 and £200,000 a year. The market is worth £21.6 Billion in 2018, the electrical contract market is expected to see an annual growth of between 2 – 3%. This growth is expected to come from the installation of equipment which involves fitting sensors and other smart technology.

Option one being General electrical installation, servicing and repair business, as Hasan has had more than 15 years' experience in his current role as an electrician for an electrical repair company. However, he has been told that he is going to be made redundant. It is important that Hasan looks at the managing resources when deciding his business. As its important for him to plan out what would be best for him when coming into certain situations. As from the case study, it shows that Hasan initially would want his target market to be builders in his local area and then individual customers. This is important to get across to the customers. So, it would be important that Hasan would have the right technology

This second example, shows an extract from a band 3, 7 mark response where the learner uses the data provided to justify why an option may be appropriate as a new business opportunity. The learner starts by identifying the two parts of the market, the work resulting from building new homes, and the second part resulting from general electrical installation and repairs. The learner gives a value on each part using the data from the case study. They then use the growth data to identify the value of the market over the next two to four years. This data is used to support the choice of this option. The learner then uses their own knowledge to identify that lowering emissions is a government target and that the type of equipment Hasan is proposing to install would help meet this target. In the last part of this extract, the learner takes some of the typical installation costs provided in the case study into table format. They discuss how knowing these competitor rates would help Hasan. They make an error by describing the pricing strategy as skimming rather than competitor-based pricing which they describe. This approach of using data to justify key points made enables the learner to achieve marks from high band 3 for this Assessment Focus.

In 2018 the UK electrical contracting market was worth up to £21.6 billion, this is due to electrical work being required within new houses and reports shown that this factor accounts for 56% of the market value (£12.96 billion of market value generated from electrical work within new houses) therefore only £8.64 billion of the market value was generated from general ways within the market such as independent work and electrical cable installations into already existing buildings and properties. Over the next two to four years, the electrical contracting market is expected to see an annual growth of between 2 – 3 % (Minimum growth for the market going of the information provided within the case study, if the market sees a growth of at least 2% then the market will grow by at least £4.2 billion). The market will see the annual growth for the next 2 to 4 years of 2 and 3% due to the revenue made from “installations in homes of equipment to improve efficiency and reduce carbon emissions”, This piece of evidence suggesting market growth within the general electrical contracting market was found within the case study and I believe that it’s prediction is to be true that the market will see growth of 2 – 3% annually as the growth within the market is coming from installations within homes to increase efficiency which will result in lower carbon emissions, this is the main goal for the UK Government as they want to reduce the amount of carbon emissions being emitted to then prevent further damage to the environment and they plan to do this by reducing the amount of carbon emissions by at least 50% by 2025.

Hasan has done some research into what other contractors charge for electrical work and I have also found some relative data for this within the case study and the research is shown below within a chart.

What the competition charge for electrical work	
Installing new lighting	£100 - £300
Installing a new power socket	£100
Rewire a house	£4,000 - £6,000

Hassan knowing the competitions charging prices for electrical work due to the research carried out can give Hasan an advantage among his competition because he could do price skimming to gain custom which is when a business charges less for a product or service than other businesses to gain custom due to knowing the competitions prices within the market.

Assessment Focus Two: Implications for resources based on decisions made.

Many learners are now using sub headings in their work for Physical, Human and Financial resources. This is helpful as it reminds them of the items they need to consider.

For financial resources, learners discussed the start-up cost associated with the two options, the need for a loan, and the difference in cost of sales and expenses. Many learners made the comment that option two had a higher cost of sales and expenses and that this would increase the risk of that option.

In this series, most learners identified that each option had no human resource requirements, although some did comment that as the business grew, they could employ staff and therefore take on more work.

The most obvious examples of physical resources included the van, the tools and test equipment. Most learners commented that either option

would not require premises as Hasan would be working from home. Some learners did not understand the concept and discussed how he would need to leave home to travel to customers houses to work.

With respect to time as a resource, some learners discussed that option two would require Hasan to undergo training and also to get registered with the government. Consequently, this would delay start-up by up to one month.

The clip below shows a mark band 1 response where the learner identifies one or two resources.

A weakness is the start up costs are high because he needs to purchase all the materials he needs, a van to store them in and advertising costs. He would need to take a loan from the bank which he will pay £225 a month which redacts from his revenue although most start up businesses this is needed for. .

In this second example, the learner achieved high band 3 marks for demonstrating understanding of a wide range of resource implications which were clearly applied to the context. In addition to those in the case study, the learner has also considered other possible resources such as a computer if working from home. The comment under financial resources about the installation grant is incorrect. This is a revenue item not a cost to the business. This misunderstanding does not detract from the remainder of the section.

Resource implications

For option one Hasan will require the equipment needed for the job role. This includes £5,000 for a loan in order to afford a work van. He will be able to pay this back over 2 years at the cost of £225 a month. To add to this is not already, Hasan will need a laptop or computer in order to run his business whilst working from home. Using the computer e will be able to use websites such as mybuilder.com to look for potential job opportunities.

For option two, as like option one Hasan will be working from home. He will need a work van and for this he will pay £5000, this sum of money also includes some of the equipment he will need. Additionally, Hasan will have to attend a two-day training course in order to be qualified for this job role. This will cost £400.

Financial resources

Option one

Hasan will be taking out a loan of £5000 in order to cover the cost of equipment such as a van, electrical testing equipment and other tools. The loan is aimed to be paid back over two years. His initial plan is to work from home, therefore keeping his own expenses to a minimum.

Option two

For this option hasan will receive a £500 installation grant from the government, this however can only be attained if he attends the two day training course, which previously mentioned, is £400. Additionally, hasan will need a £5000 loan in order to pay for the work van as well as the necessary equipment.

Human resources

Option one

The target market for option one would be builders in the local area as well as individual customers. By registering with the NICEIC, this validates Hasan's work and allows him to use the government website for job referrals. This means once he has achieved this certification Hasan will be able to find the necessary job posts and appropriate colleagues to assist with the job role.

Option two

This option gives Hasan the opportunity to work individually. Both options consider him starting up a business whilst being self-employed. This option requires no other team members, Hasan will be working from home and then completing the job tasks individually. This will save on expenses such as wages for other builders.

Physical resources

Option one

The physical resources needed for electrical installation will include a work van and electrical testing equipment. Alongside this is the materials he will need to complete the task, however this will be paid for using cash or a credit card until there is a supplier which can offer Hasan trade credit. This will allow him to afford the materials more regularly whilst not negatively impacting his sales revenue.

Option two

In order to install electric vehicle charging points Hasan must consider the necessary equipment. As with option one a van will be required, to add to this he will need a device to advertise his business to potential customers on social media platforms such as Facebook and google adds.

Technological Resources

Option one

Hasan will be able to set up a website to then set up a marketing scheme in order to attract potential customers. As well as advertising his own company, hasan can use websites such as mybuilder.com to look for work opportunities. These websites are online directories where customers can post jobs for electricians, the customer then decides which tradespeople they wish to employ for the job at hand. Furthermore, Hasan can obtain new work through good reviews left by customers. By asking customers to leave a short review, this can allow other potential employers to establish Hasan's work ethic and skills.

Option two

As this option does not require hiring additional staff to work with Hasan, the technological aspect refers to the marketing and personal skills he will need to complete in order to advertise his business. The way he intends to advertise is through google Ads and his own personal Facebook. Eventually it could be useful to set up a business page on Facebook, this could include reviews and his availability.

Assessment Focus Three: Financial forecasting

Most learners were able to use the data provided to calculate the cost of sales of £48,000 and £90,000 respectively. Some compared these two values to justify that option 1 was the lower risk. The revenue from each option was also considered by a number of learners as part of their justification. Some compared the £120,000 first year revenue of option 1 to the potential revenue of £150,000 to £200,000 quoted in the case study and suggested the business had further potential. Others simply stated that option 2 had the highest revenue and may have quoted the difference, i.e. £60,000.

Some learners used the cost of sales values to calculate gross profit and gross profit margins. The next step was to deduct the expenses to arrive at the net profit and thus net profit margin for each option. Learners were credited for adding the loan interest to the expenses figure when determining net profit. Learners who used the total loan repayment of £2700 were also credited for calculating net profit. If learners ignored the loan entirely, the net profit figure was judged to be incorrect, but marks could be awarded for then using this value to calculate a net profit margin using the learner's own figures.

A small number of learners attempted to calculate the ROCE value for each option, using the loan as the capital value.

Some learners attempted to produce a cash flow forecast for the first year. Common mistakes included failing to take account of the loan as income and the purchase of equipment as outgoings, and failing to remember that in option 2, the revenue for months one and two were only 50% due to the credit period for the government grants.

Some learners demonstrated very little understanding of cash flow forecasting and included the cost of sales as an income, or they failed to calculate net cash flow, opening and closing balances.

To achieve a mark in the highest mark band for this Assessment Focus, learners not only have to produce a range of financial forecasts such as profit, profit margins, ROCE etc, but they also have to demonstrate the ability to interpret the figures they have calculated and show how the figures may affect the business.

Learners who had performed some financial calculations then went on to use the data to build a justification for one option or the other as part of their SWOT/PESTLE analysis.

In the example below, the learner has calculated the difference in expenses for the two options. This was the only financial analysis undertaken and achieved 1 mark, bottom of mark band 1 for demonstrating limited understanding of financial concepts.

Weaknesses – Hasan’s expenses for option two is considerably higher than those for option one. Option two has expenses of £19 500 whereas option one has expenses of £10 300, this is £9200 higher. The increase in expenses is going to affect the overall sales revenue Hasan receives – which could potentially affect how his business manages. On top of this, Covid is also a contributing factor that could lower the revenue he receives.

In the second example, the learner was awarded bottom of mark band 3. They have correctly calculated the gross and net profit for option 1 (using the £2700 loan figure). They have also calculated the tax and deducted this and the drawings to show the retained profit of £2,200 at the end of year 1. For the second option, the learner has not calculated gross profit but has again correctly calculated net profit, tax and retained profit (which they call profit).

To conclude, they use the calculations to help justify the decision to choose option 2 as this has the higher (retained) profit value.

To improve on this response, the learner could have calculated the gross and net profit margins. The instructions in the set task specifically identify the need for the report to “interpret financial information using ratio analysis”.

<u>Financial forecast for electrical installation, servicing and repair business</u>			<u>Financial forecast for electrical vehicle charging business</u>		
	£	£		£	£
REVENUE	120,000		REVENUE	180,000	
COST OF SALES	40%		COST OF SALES	50%	
GROSS PFOFIT		<u>72,000</u>	EXPENSES	19,500	
EXPENSES	10,300		LOAN REPAYMENTS	2,700	
LOAN REPAYMENTS	2,700		NET PROFIT		<u>67,800</u>
NET PROFIT		<u>59,000</u>	TAX ON NET PROFIT	13,560	
TAX ON NET PROFIT	11,800		OWNER DRAWINGS	45,000	
OWNER DRAWINGS	45,000		PROFIT		<u>9,240</u>
PROFIT		<u>2,200</u>			

As shown in the financial forecasts, Hasan will make a greater profit by choosing option 2 over option 1. My recommended, final decision is option 2. Hasan will most likely make the most amount of money. Due to there not being a lot of room in General electrical contracting, it would be hard to make a name for yourself and actually get customers.

In this final example, the learner has taken a different approach and was awarded maximum marks.

They have calculated gross profit, gross profit margin, net profit and net profit margin for both options, within the body of their report rather than as a formal financial statement. This is acceptable, but not recommended, but credit is given for the accuracy of a range of concepts. The interesting point is that at the end of paragraph 1 of the extract, the learner has carried out a break-even analysis. The case study gave the cost of installing lighting between £100 and £300. The learner has set a price of £150. At 40% cost of sales, this would give a contribution of £90 per light installation. Expenses plus loan repayments total £13,000 which the learner uses as the fixed cost. £13,000 divided by £90 gives a break-even quantity of 144.44 lighting units. The learner accurately states 145 units are needed to cover the expenses (break-even). It is not apparent at first reading this response where this value has come from. It is therefore recommended that learners show their working out when performing financial calculations to ensure they receive full credit for the work they undertake.

With a sales revenue of £120,000 with a cost of sales at 40% you can expect to have a cost of sales totalling to £48,000 which leaves you with a £72,000 gross profit. This means that your gross profit margin is 60% and this is quite high which means your business will be quite effective financially. Once you deduct the expenses you will have a net profit for the year of £59,000 giving you a net profit margin of 49.2% meaning that your business is quite efficient and cost effective and this could be down to your experience in the market. In order for you to breakeven in the first year, you would need to fit at least 145 lights for £150 in order to cover to businesses costs.

In terms of finances you are forecasted to produce £180,000 with a 50% cost of sales which will come in at £90,000 leaving you with a gross profit of £90,000 making your gross profit margin 50%. You then have expenses for your tools, van and loan repayments costing you £22,200 a year which leaves you with a Net Profit of £67,800, then deducting tax of £13,560 you will be left with £54,240. Your business as a whole will have a net profit margin of 37% which is very effective and this shows that your business is likely to be successful.

Assessment Focus Four: Key factors, risks and alternative approaches.

Once again, this Assessment Focus often had strong, well thought through key points. Learners could rationalise the key factors and risks for each option. The majority of learners completed a SWOT analysis although some simply inserted case study data into a SWOT table. This method of displaying data demonstrates selection of data but does not show the detailed level of analysis required to achieve marks in the higher bands of the mark scheme, 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 government initiatives to stimulate the purchase of electric vehicles. Unsurprisingly, COVID was also an issue identified by many learners, with some suggesting restrictions on movement and meeting inside homes may reduce demand for electrical services.

Some learners produced a Porters 5 Forces analysis or a 5 C analysis model, but these were sometimes basic or generic.

It should be noted that for higher marks, learners should use two different decision-making tools to ensure their work comprehensively covers the key factors and risks. The work must also be in context and be clearly linked to the business goals which in this instance were to break-even by the end of year 1 and in the future to grow into a successful private limited company.

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

- Start-up cost
- Revenue
- Profits
- Profitability ratios
- Investment returns
- Government loans/initiatives
- Lack of forecasts for year 2 and beyond
- Degree of competition
- Lack of reputation
- Lack of trade credit
- Growth potential for each market
- Need to achieve government accreditation for option 2
- Time taken to receive government contribution to installation cost for

option 2

The following is an extract of a mark band 2 SWOT analysis. This is better than a list and there is some development/explanation of a limited number of key factors/risks in context to the business. Only option 1 is shown here, but a similar response was provided by the learner for option 2. To achieve higher marks the analysis must have clear linkages to the stated business goals.

Option 1

Option 1 is for you to start a business that provides general electrical installation, servicing and repairs for individual and commercial customers.

<p><u>Strengths</u></p> <ul style="list-style-type: none"> - Expected annual sales of £120,000 would allow you to expand your business and bring you quite close to breaking even within the first year which is very difficult for start up business. - You've got 15 years of experience in the electrical market which means you will know where to work and how to find work which will allow a head start over other new electrical businesses - A social media presence would make you more popular among the individual customer because they are more likely to be scrolling the internet and see his business giving him good brand awareness making customers more likely to choose him. 	<p><u>Weakness</u></p> <ul style="list-style-type: none"> - Your suppliers have not yet agreed to allowing you trade credit which could make it very difficult as a start-up business as you probably won't have any retained finances at such an early stage to pay for all of your equipment. -
<p><u>Opportunities</u></p> <ul style="list-style-type: none"> - Your business will be able to expand and become a lot bigger as the market is expanding by up to 3% every year allowing a greater opportunity for more customers and more revenue to be made. 	<p><u>Threats</u></p> <ul style="list-style-type: none"> - There are 5 large corporations that own 10% of the entire market, totalling up to £2.16 billion which will increase the amount of smaller businesses that cannot compete which will increase the amount of competition for you, reducing that amount of work that you will be able to find.

The second example shows an extract from a learner scoring marks in band 3 of the mark scheme. The extract starts with a PESTLE analysis for both options. Some of this is simplistic but is clearly linked to the business goals. The work then goes on to show a SWOT and 5C analysis for option 1, in places utilising prior financial analysis to justify a point. There was similar content produced for option 2 which has been

omitted here. The learner is using data provided in the case study to help develop their rationale for the option. Whilst this is a solid approach it does not meet the requirements for the highest band in the mark scheme. **To achieve this level, learners must provide “a comprehensive coverage of key factors and risks that are fully rationalised, and which are clearly linked to context and business goals”.**

PESTLE – option 1 and 2

Political – government laws can impact on both of these options such as if the government introduces new laws and legislation the business might be affected by having to get approved by the government therefore this may take time which will affect their cashflow forecast which both would affect their goal which is to break even and expand

Economical – Both of the businesses can be affected by the economical change in the financial side of the businesses, Option 1 can be benefited from economical change because of inflation, if the prices carry on to rise because of this you can charge a higher price for his services of electrical fitting.

Social – For both of the businesses option 1 people who need the electricity will need somebody to come fix it and it's the same with option 2 if somebody doesn't have a car charger anywhere near their house they are going to need someone to come charge it or place a charger in.

Technological – option 1 is important when it comes to technology as you are going to need wifi to be able to access NICEIC otherwise you won't be able to find jobs which will affect the business and for option 1 and 2 it will affect them because they are going to need to create a website which will help them make sales.

Legal – option 1 you would need to register with the national inspection council for electrical installing and if you do not they won't be able to offer your services and option 2 he needs to be government approved otherwise you cannot sell which both will affect the business aims.

Environment – option 2 you will be helping the environment by giving services to people with electric cars who are trying to reduce the carbon emissions and green house gases in the world therefore this could be a good publicity and option 1 you are going to be helping people fix their house that don't have lighting,

Swot

Strengths

The strengths of this business and I believe is the biggest strength of your business is that you have a high predicted netprofit margin this is a strength because you will be creating enough revenue for your own personal use and the money which is kept in the business can be used to expand the business, another advantage is that the business is most likely going to be a soletrader therefore you are going to be working for your self and as you are going to be working from home it is a strength because there is no need to buy any offices near you which is good factor as you save a lot of money by not paying rent and purchasing or renting the property in the first place. The last strength of the business is that you have 15 years experience of quality services therefore this will be attractive for customers who needs a reliable person to do work.

Weakness

A weakness of your business could be that you are working from home and this is a weakness for your business because it doesn't allow you to connect to your potential customers on the high street where you live. By not having a property then people will find it hard to know about your business in the area as there is not physical sign of it. Another weakness of the business is that it is only you doing the work therefore it may take a long time for you to do all the services that the customers wants you to do and this is a weakness because it might look unprofessional. Creating a website although may be a good thing for the business it could be a weakness as you will have to pay someone out of your own pocket to set the business up therefore it also may take a while the business has a good reputation.

Opportunity – an opportunity the business has is that new houses is required electrical work in 56% of new housing and this is a opportunity for you as many houses around you in your local area may need work done therefore you have the opportunity to increase your sales revenue and profit margin because of this, this could lead you by having more money to put back into the business to expand it which would mean an increase in sales by increasing advertisements.

Threat- a Threat of the business is that there might already be a could of electrical companies in your local area already and as your working from home and the the companies could be having property in your local area already could mean customers already know about it therefore this bad for you because it may be hard find customers due to customers already having customers loyalty with your competitor.

5cs and porters 5 forces

The first 5c I will talk write about could be the most important factor for the business to consider, the customers of the business, it is important to understand what the customers needs are and being able to diversify your service into customer needs such as setting up the lights in a certain way, to be able to make your customer happy is very important for the business as it could potentially lead to customer loyalty and this is good for the business because it will lead the customers to ask for your services again which will help you reach your goal which is too break even. The company is the next c I will talk about because your business is a start up it may be hard to find customers straight away that's why It is crucial for your business to advertise as much as you can on social media this will help the business by making the most sales of the business which therefore leads to the business breaking even which is your goal in the first year. And the last c is the competitors to be able to understand your competitors and being able to copy the services they give but being able to improve it such as giving customers customer needs could potentially give you an competitive edge in the market.

to understand what type of market the business is in it is very important to understand that firstly the threat of substitute of this industry is low because if a customers light is broken they need a professional electrocution to fix it for them therefore the threat of substitute of this business is low. The next is the threat of entrants as there has been an increase in smaller businesses it shows that people recognise the trend of increase in new housing therefore the this means that you have to offer a better service then others as this will give you a competitive edge in the market.

Assessment Focus Five: Supported decision making.

Very few learners produced a report without providing a final decision on which option to choose. Learners who failed to complete a financial analysis provided only a partial justification of which option they considered was most appropriate for the start-up business. Higher achieving learners used all of their financial calculations and other decision-making tools to produce a convincing and fully justified decision.

The example below shows an example of a simplistic decision with limited justification due to a lack of detailed prior analysis and no financial forecast.

In conclusion I would recommend for Hasan to pick Option 2 – Electrical vehicle charging business. I think this because, although there are some negatives, I think his businesses has a better chance of growing and getting better over the years and he could be more successful doing this rather than choosing option 1. If he chooses option 2, he has a high chance of growing and potentially expanding his business over the country and taking on employees to work for him after a few years of being successful. He will also be certified by the government which will look good towards his clients, they will probably have more trust in him that he will do a good job.

This second example shows a mark band 2 response where a decision has been made which is partially justified. The learner fails to use any financial analysis to help support the decision made.

Options

The two options are Hasan could either start a general electric installation company which he could do from home to help save money or Hasan could start an electric vehicle charging business which he would also do from home to help save money.

Summery

I think the best option Hasan should go with is electric vehicle charging business because there aren't many competitors in that market meaning he can start now get make his company bigger by the time its 2035 which is when the government will ban all non-electric cars meaning there will be a huge demand for charging ports which is perfect for Hasan because he will also have an advantage over other businesses who are just starting out. In the general electrical installation business, there are loads of competitors meaning it will be harder for Hasan to be a successful business with this choice. Hasan has time to grow his company too and plan for the future such as 2035 when there will just be electric cars on the road which will be very beneficial for Hasan. The cost is a lot, but the profit Hasan can make is huge especially with electric cars growing. There is a shortage of electric vehicle charging points and the UK will need a 600% increase because of how many electric cars will be on the road.

In this final example, the learner was awarded a mark in band 3. The work has a convincing decision considering both options and using the learner's previous analysis to come down on the side of option 2. It should be noted that the calculation of difference in profit is an error carried forward from the financial analysis section of the learner's report and they are not penalised twice for the error. In addition, the learner has made two other recommendations that they believe would be beneficial to the business. This is not essential for Assessment Focus five, but is credited as an 'alternative approach' which is part of Assessment Focus four.

By comparing these 2 options I would recommend based on finance alone that Hasan should go for option 2 as he will receive a higher net profit at the end of the year compared to option 1. The difference between this will be $53920 - 47200 = £6720$ which is a lot of money and a big difference for a small business. Although the expenses for option 2 may be higher, he will receive a higher sales revenue which would balance out the costs. Also the market for electric cars will grow rapidly in the upcoming years meaning that his business could boom in the near future making it highly profitable and successful. Hasan can expand his business by hiring employees to do the work for him or invest in getting a website and social media so that people can find him online and contact him with any inquiries. The reason option 1 is not the better option is because Hasan cannot carry out work for electrical rewiring and installing sockets etc all by himself. If he receives too many jobs he would have struggled to control his business making it hard for him to operate efficiently. Also he may have had additional costs associated with that business and given that he would have had a lower net profit than option 2, he would've struggled to keep up with those expenses.

Recommendations:

If Hasan opts for option 2 he would need to hire an employee and the best way to go about with that is to hire an apprentice. This would save Hasan several amounts of money than hiring an experienced individual and would decrease the business's expenses. Although it may take time for him to train the apprentice he will have a helping hand for the business and would also only need to pay him a minimum wage. The apprentice would help Hasan manage his business so that things such as the finances are managed properly and are up to date to reduce additional and unexpected expenses.

Another recommendation for Hasan would be to have social media pages where he advertises the business. To create profiles on social media pages such as Instagram and Facebook does not cost any money but doing so he is ensuring that people can find him online and be more aware of the business. It will also be a good way for people to leave review on the service provided and potential customers can see the pages to see if the business is good or not. This would help Hasan to increase his customers at a no extra cost for the business as it is an effective way to advertise the business. This would help him to achieve his second goal of being successful.

Assessment Focus Six: Presentation and structure

Reports were usually well presented with learners achieving mark band three or higher. Most of the work contained headings, subheadings and clear paragraphs. Some used formal report structures with paragraph numbering and an index sheet, although this is not required to achieve the top mark band. Learners continue to lose marks for the lack of accurate use of relevant business principles and business management terminology. Examples include discussing gross profit and using the net profit values, or providing a PESTLE analysis and mis-identifying elements.

Activity 2: The presentation

For this second activity, learners have to use appropriate software, to prepare a presentation to the business owner or client. The presentation should:

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

The presentation must be accompanied by speaker notes or a script that will engage and convince the owner or client of the viability of the business opportunity recommended.

A number of learners continue to provide no evidence for this activity. This may be due to learners spending too much time on activity 1. A total of 18 marks are available for this part of the test, 26% of the total marks, and learners should allow approximately 45 minutes for the completion of this activity.

Assessment Focus Seven: Business proposal overview

Most learners were able to refer to the data used in their report and identify some key points that outlined the business idea. Some learners failed to select the appropriate information from their report or gave a very brief outline. Learners that copy and pasted large sections of their report into the presentation notes also fail to score highly as they do not demonstrate the ability to select appropriate data.

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

Many learners attempted to justify their business proposal using data from the case study and the analysis undertaken in their report. Some presentations were not in the form of a business pitch. Some learners produce work that looks either at the finances or the key factors. To achieve mark band 3 or higher, the work must demonstrate sustained use of the key factors and risks, as well as the costs and finances. Learners are reminded this activity is a summary of what has been produced before. There is no requirement to provide additional recommendations.

It is essential that the decision made in activity one is carried through to this activity. If the learner changes the decision at this point the work could not be considered to be an appropriate pitch to investors.

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.

To achieve mark band 3 in this Assessment Focus, the presentation should be professional, free from errors, would engage and be likely to convince the audience/potential investors. To achieve mark band 4, the presentation would both engage and convince the audience/potential investors. This is not likely to be the case if financial analysis or other key data has been omitted from the presentation.

Assessment Focus Seven to Nine: Presentation examples

In the example below, the learner has provided a very limited summary of the business proposal with an outline of what the business does.

They have used a very limited selection of data from the case study to justify the decision made, and the final slide makes a recommendation for how the business may develop.

This response achieved mark band 1 for all three Assessment Focus in this activity. Learners need to ensure they use sufficient information from the case study to set the scene for the decision that is then summarised in Assessment Focus eight and nine.

HASAN'S BUSINESS IDEA

Hello and welcome. Today I will show you why you should choose to start a business selling and repairing electric car chargers.

THE MARKET

- ▶ In 2035 only 0 emission cars are to be sold new in the UK.
- ▶ 70% increase in electric vehicles sales in the last two years across the EU.

The electric car market is currently booming with more and more cars expected to be brought over to the UK because off the new 2035 0 emissions rule. In the last two years alone the sales off electric cars has risen by 70% across the EU and shows no signs off slowing down.

IDEAS ON HOW TO GROW

- ▶ Strike a deal with electric car dealerships to recommended you as the best local business to install and service home car chargers.

A deal with and electric car dealership would insure a increase in sales as well as generating new loyal clients to stay with you every year for repairs.

In the following example, the learner has produced a detailed presentation. They start by identifying the decision they have made, to choose option 2, and then outline some key market data relating to this option.

The second and third slides outline some key data and financial analysis for each option. There are extensive speaker notes but these are selective, not copied from the learner's report. These notes also provide a clear link to the business goals stated in the case study. It should be noted that there are errors on both of these slides. The learner has failed to account for the loan interest when calculating net profit. The learner was already penalised in Assessment Focus three in activity one and this error does not impact on the marks awarded for this activity.

The final slide and speaker notes confirm the decision to recommend option 2, using some key data and a clear link to the stated business goals.

This presentation was judged to meet the standard for the award of marks in band 3.

Electric Vehicle Charging Business

In this presentation, I will be presenting on why you should choose to start an electric vehicle charging business and will be comparing option 1 and option 2. According to the case study, the sales of new all EVs increased by 70% over the last 2 years and there are now 220000 EVs on UK roads. This number is predicted to increase to 500,000 by the end of 2020 and rising over 1 million by the end of 2022. Because of this rapid growth, there is potential shortage of EV charging point in the UK, because of this we need a 600% increase of EV charging points to meet predicted demand. Because of discount that the government has given out, they are offering £3500 discount on purchasing electrical car to reduce carbon emission as they are planning to make all new cars and vans zero emission vehicles by 2035.

Option 1 – General Electric Installation

- Price for installing lightings - £100 - £300
- Price for installing power socket - £100
- Price to rewire a house - £4000
- Target builders in local area and individual customers
- Register with National Inspection Council for NICEIC

- Cost of sales = £48,000
- Gross profit = £72,000
- GPM= 60%
- Net profit = £61,700
- NPM = 51.42%
- Profit after tax = £49,460
- Profit margin = 41.22%

For option one, you would be installing general electric such as lightings, power socket etc. Since you already have 15 years of experience in this field you wouldn't need training. However, by understand the Porter 5 Forces, I can see that the threat of new entrants can be high this is because of according to the case study, there has been an increase in the number of smaller independent businesses operating in the market, due to this threat of new entrants can be high; these businesses may have started by workers who used to work at an electrical contractor, like you. As a result, this would link with SC's, since threat of new entrants is high, this would mean that there are also many competitors, according to the case study, the competition in this market is fierce because of the five largest electrical contracting businesses, they control about 10% of the total market, because of this you have 5 big competitors and there are also small independent competitors for you to consider. The biggest risk for you to consider is that there are many competitors and 5 biggest competitors in the market, you need to consider what you need to become more successful and reaching your objective and be more competitive than others.

Your goal is to break-even in first year of trading, by looking at your financial forecast your gross profit would be £72,000 which would equal to 60% for your GPM this means that every pound you make 60p would be profit, however, when taking expenses into account, your net profit would be £61,700 which is still quite good,

this leads to your NPM to be 51.42%, this is a good percentage to be in because there is only around 8%-9% difference between your GPM and NPM. But, your profit after tax would be £49,460 which would lead to your profit margin after tax to be 41.22% which is still pretty good.

Option 2 – Electric Vehicle Charging Business

- Growth in the business
- Big opportunity to get into the market
- Target both buyers and second hand EVs
- Installing EV charging point at owner's home
- Get orders from local businesses to install
- Cost of sales = £90,000
- Gross profit = £90,000
- GPM = 50%
- Net profit before tax = £70,500
- NPM before tax = 39.17%
- Net profit after tax = £56,400
- NPM after tax = 31.3%

For option 2, Since the government's aim is to ban non-electrical car by 2035, by starting an EV charging business could be a good idea. This would be a big opportunity for the business because there has been growth of electrical cars in the UK, since the government has offered a £3500 discount for electrical cars. Your target market would be both buyers and second hand EVs, you will be able to install EV charging point at owner's home as well as try to get orders from local businesses to install EV charging points that the workplace. By doing this, you will get more customers, since there is already rapid growth in EVs cars, this would lead you to build reputation around the local area. You can also advertise your business to potential customers through Facebook and Google Ads, this would reach to customers who are on social media and that you can increase your revenue by having lots of advertisement to increase customers.

By looking at your financial forecast for the first year, your gross profit would projected to be £90,000 which would lead to your GPM to be 50%, however, your net profit is projected to be £70,500 (before tax) which would lead to your NPM (before tax) to be 39.17% there is a 10.83% difference between your GPM and NPM (before tax), however, after tax is taken to account, your net profit is projected to be £56,400 which would lead to your NPM after tax to be 31.3% which means that there is a 18.7% difference which is a big difference, this is because of you spending

£19500 on expenses, this would decrease your net profit which would lead to decreasing your NPM. To increase the NPM is to decrease expenses by spending less on expenses.

Conclusion

- Benefit from option 2
- Why you should choose option 2

In my personal opinion, I recommend you to choose option 2, this is because of the rapidly growth in the market as well as the government encouraging people to purchase electrical cars, because of this UK needs to have more EV charging points, this would lead to an increase of the market, by you entering this market right now, you have a chance to break even within a year; and potentially increase growth of your business in year 2 or 3. Although, your profit margins are lower than option 1 in the first year, it's because you need more resources and training in the first year, whereas in option 1 you don't need as much. However, in a long term, you will increase sales revenue and will be able to grow due to the increase in electrical cars in UK. It depends on if you are able to break even in the first year, if you are then it would be easy for you to grow into a private limited company and achieving your goals within couple of years. The most important factor is that you break even in the first year and, in the future, you become successful private limited company.

Summary

- All the data required is provided in the task. Learners do not need further information and do not need to be familiar with a particular industry
- Assessment Focus one requires learners to select and interpret data that has been provided, not simply copy the task into the report
- For Assessment Focus three, the financial forecasting, learners need to produce new forecasts of profit/profitability etc. using the data provided. Learners should carry out financial analysis of each option. Learners will gain little credit for simply restating financial information provided in the case study.
- For Assessment Focus four and Assessment Focus five, it is expected that learners will use financial analysis together with 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 from other units of the specification could also be used. At least two decision making tools should be used if learner work is to be considered comprehensive and convincing
- 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
- Managing time across the two activities should enable learners to improve their scores on activity 2, but copying the majority of the activity 1 report into the speaker notes for activity 2 does not demonstrate selection. Learners should only use data relevant to the task
- To achieve marks towards the top of mark band 3 or into mark band 4 in Assessment Focus eight requires learners to use both financial and other key factors/risks when they prepare the 'pitch'.



Llywodraeth Cynulliad Cymru
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