

Pearson BTEC Level 3 Nationals

Thursday 17 – Friday 18 January 2019

Supervised hours: 3 hours

Paper Reference **31589H**

Business/Enterprise and Entrepreneurship
Unit 7/Unit 6: Business Decision Making

Part S

You must have:

Calculator, note paper and pen

Instructions

- This task book contains material for the completion of the set task under supervised conditions.
- This task book is specific to each series and this material must only be issued to learners who have been entered to undertake the task in the relevant series.
- This task book should be kept securely until the start of the 3-hour supervised assessment period.
- This task book must be issued to learners during the 2-day period and under conditions specified by Pearson. This will allow centres to timetable appropriate supervised sessions for all learners.

Information

- The total mark for this paper is 70.

Turn over ►

W61149A

©2019 Pearson Education Ltd.

1/1/1/1/1/1/1/1



Pearson

Instructions to Teachers/Tutors and/or Invigilators

This paper must be read in conjunction with the unit information in the specification and the *BTEC Nationals Instructions for Conducting External Assessments (ICEA)* document. See the Pearson website for details.

The set task is undertaken under supervision in a **single session** of three hours on one of the two timetabled days.

Centres should schedule all learners in the same sessions if possible and must release the assessment to individual learners only for their scheduled sessions.

Work should be completed on a computer. A period of two days is provided for centres to timetable the assessment to give learners access to computer resources.

Centres may schedule supervised rest breaks during the session.

All learner work must be completed independently and authenticated by the teacher/tutor and/or invigilator before being submitted to Pearson.

Refer carefully to the instructions in this paper and the *BTEC Nationals Instructions for Conducting External Assessments (ICEA)* to ensure that the supervised assessment is conducted correctly and that learners submit evidence that is their own work.

Learners must not bring anything into the supervised environment or take anything out without teacher/tutor and/or invigilator knowledge and approval. A calculator, note paper and pen are allowed.

Centres are responsible for putting in place appropriate checks to ensure that only permitted material is introduced into the supervised environment.

Maintaining security

- During the supervised assessment period the assessment areas must be accessible only to individual learners and to named members of staff.
- Learners can access their work only under supervision.
- Learner work should be backed up regularly.
- Any work learners produce under supervision must be kept securely.
- During any break materials must be kept securely.

Outcomes for submission

Each learner will need to complete **three** documents:

- a report
- a presentation with speaker notes or script
- an authentication sheet.

Instructions for Learners

Read the Set Task Information carefully.

It contains all the information you need to complete both activities.

This is a **single session** of three hours. Plan your time carefully. Your teacher/tutor and/or invigilator will tell you if there are any supervised breaks.

You will complete the activities within the set task under supervision and your work will be kept securely during any breaks taken.

You may use a calculator and will have access to a computer.

You must work independently throughout the supervised assessment period and must not share your work with other learners.

Your teacher/tutor and/or invigilator can clarify the wording that appears in this set task but must not provide any other guidance to help you complete the task.

Outcomes for submission

You will need to complete **three** documents:

- a report
- a presentation with speaker notes or script
- an authentication sheet.

Set Task Information

You work in the accounts department of *Wear Products Ltd*, a successful, medium-sized private limited company that makes parts for equipment used in the exploration and extraction of oil and gas. The business needs to develop in order to compete with multinational companies by increasing its market share.

The company is considering **two** options for increasing market share:

Option 1

Internal growth through the purchase of new equipment

Option 2

External growth by the purchase of another business.

On the following pages you will find information relating to the two options.

This includes data and information on:

- The Oil Market
- *Wear Products Ltd*
- Option 1 – Internal growth
- Option 2 – External growth

Set Task

You must complete both activities.

You will produce **two** documents using a computer:

- a report
- a presentation of slides with speaker notes or script.

Activity 1

You have been asked to produce a report that examines the two options available to the directors of *Wear Products Ltd* to increase the future market share of the business.

Your report must consider **both** options and include:

- an assessment of
 - the key factors and risks
 - the implications for resources
- appropriate financial forecasts
- an interpretation of financial information using ratio analysis
- use of appropriate decision-making tool(s) to support your recommendations to the directors.

Your report must be set within the context of the business and its goals.

Your report should be presented in an appropriate format for the directors.

You should present your report as a word processed document in a minimum of 12-point font.

(Total for Activity 1 = 52 marks)

Activity 2

Using appropriate software prepare a presentation to pitch your recommendations to the directors of *Wear Products Ltd*.

The presentation should:

- summarise the recommendations made in your report
- give your rationale for the recommendations made.

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

(Total for Activity 2 = 18 marks)

TOTAL FOR PAPER = 70 MARKS

The Oil Market

Demand for oil grew by over 5% from 2013 to 2016. This was forecast to continue to grow by 1.2% each year until 2021.

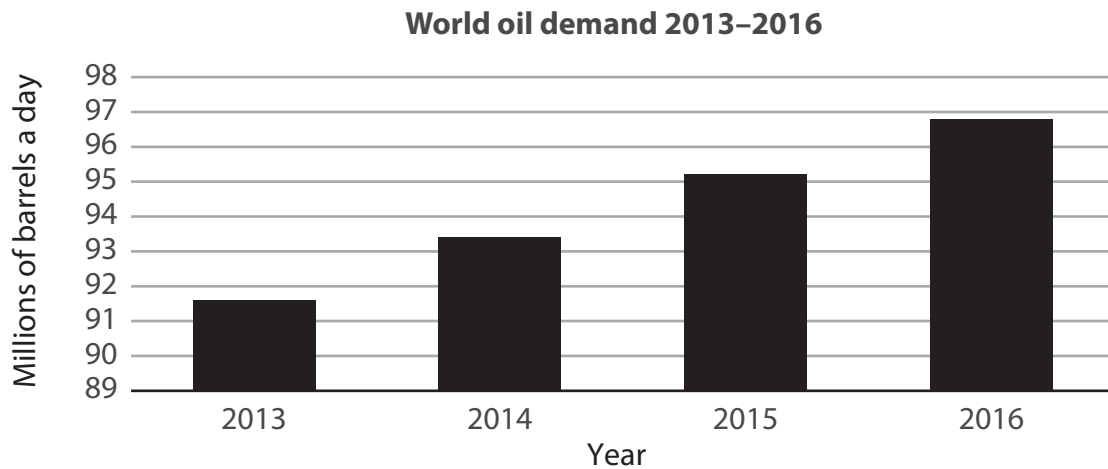


Figure 1

One reason for this forecast growth is the increase in world population, which is predicted to grow by 1.1 billion between 2010 and 2025. This increase in population will mean higher demand for energy, despite the recent trends of using alternative fuels.

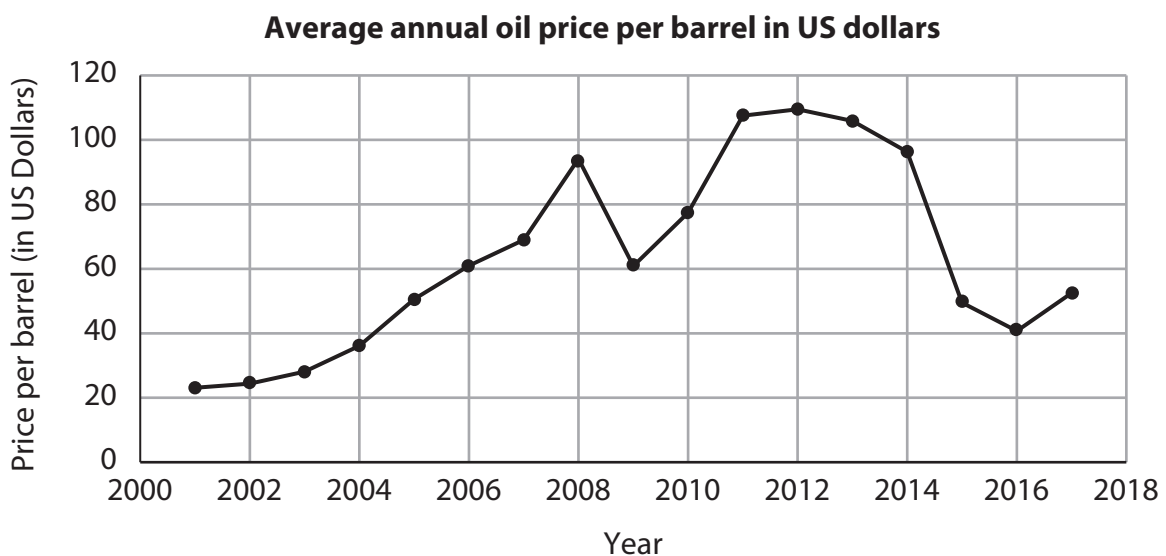


Figure 2

Figure 2 shows that between 2001 and 2017 the price of oil was very unpredictable. It is expected that these price fluctuations will continue.

War, conflict and regional politics can reduce the supply of oil from some parts of the world and increase the price. Even at the 2009 average oil price, oil companies were able to make good profits from some of the less viable fields. This resulted in previously uneconomic oil fields being developed.

The forecast increase in demand for energy and further price rises will see oil companies increase their efforts to find new sources of oil. Therefore manufacturers of oil exploration equipment should see a growth in demand for their products for the foreseeable future.

Wear Products Ltd

Wear Products Ltd makes parts for oil and gas exploration equipment. This equipment is used to help extract oil and gas from underground. These products are made exclusively to customers' own designs. The company currently employs around 100 highly skilled staff.

Wear Products Ltd has a reputation for producing high quality products in a range of different materials. It has over 40 years' experience in providing excellent customer service. *Wear Products Ltd* also offers a design consultancy service that advises customers on the most appropriate material for the product being produced. This service adds value to the business and is highly prized by customers. It is one of the reasons the net profit margins are as high as they are.

The financial performance of the business between 2014-2017 was uneven, in part due to the fluctuating oil price and competition. The following data has been provided.

	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

Given the forecast growth in demand for oil (Figure 1) and therefore the increased demand for oil-related equipment, the directors of *Wear Products Ltd* are considering expanding their production facilities with the objective of increasing their market share. They hope this will improve the financial performance of the business and ensure the business can compete in the future. The directors are considering two alternative options for future growth.

The directors are prepared to use the 2017 net profit as part funding for their growth plans.

Option 1 – Internal Growth

Wear Products Ltd has identified a new and more efficient piece of production equipment that would double the company's current production capacity. This equipment is available for delivery six months from the date of order. The equipment is made in America and costs £700 000. The supplier has an excellent reputation and is seen as a world leader in this type of equipment.

In addition, a further £350 000 is needed to purchase other associated equipment. Together, these purchases would enable *Wear Products Ltd* to meet the forecast increase in demand.

After purchasing the new equipment, sales revenue in the first year is predicted to increase to £4 950 000, with a cost of sales of £1 485 000.

The new production equipment is more accurate and requires fewer operating staff. The accuracy of the products made would be higher and therefore the business would expect to reduce the amount of products rejected due to quality issues. However increased levels of production mean the total expenses (overheads) would increase to £2 665 000.

Option 2 – External Growth

Wear Products Ltd is aware that one of its competitors is available for sale. The price is £1 000 000. Such a purchase would not only remove a competitor from the market but would also increase production capacity, leading to an increase in sales revenue.

In the last full year of trading this competitor had a net profit margin of 11%. The cost of this acquisition should pay for itself within five years. The combined revenue of a new enlarged *Wear Products Ltd* company could be as high as £5 200 000, with a cost of sales of £1 638 000 and expenses (overheads) of £2 522 000. Buying a competitor, however, is never risk free, and fully integrating two businesses with different cultures and ways of working can take time.