

L3 Lead Examiner Report 2001

January 2020

L3 Qualification in Business/Enterprise and Entrepreneurship

31589H – Unit 7/6: Business Decision Making

Edexcel and BTEC Qualifications

Edexcel and BTEC qualifications come from Pearson, the world's leading learning company. We provide a wide range of qualifications including academic, vocational, occupational and specific programmes for employers. For further information visit our qualifications website at <http://qualifications.pearson.com/en/home.html> for our BTEC qualifications.

Alternatively, you can get in touch with us using the details on our contact us page at <http://qualifications.pearson.com/en/contact-us.html>

If you have any subject specific questions about this specification that require the help of a subject specialist, you can speak directly to the subject team at Pearson. Their contact details can be found on this link:

<http://qualifications.pearson.com/en/support/support-for-you/teachers.html>

You can also use our online Ask the Expert service at <https://www.edexcelonline.com>

You will need an Edexcel Online username and password to access this service.

Pearson: helping people progress, everywhere

Our aim is to help everyone progress in their lives through education. We believe in every kind of learning, for all kinds of people, wherever they are in the world. We've been involved in education for over 150 years, and by working across 70 countries, in 100 languages, we have built an international reputation for our commitment to high standards and raising achievement through innovation in education. Find out more about how we can help you and your learners at: www.pearson.com/uk

June 2019

Publications Code 31489H_2001_ER

All the material in this publication is copyright

© Pearson Education Ltd 2019

Grade Boundaries

What is a grade boundary?

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.

Grade boundaries for this, and all other papers, are on the website via this link:

<http://qualifications.pearson.com/en/support/support-topics/results-certification/grade-boundaries.html>

31589H – Unit 7/6: Business Decision Making

| Grade | Unclassified | Level 3 | | | |
|---------------|--------------|---------|----|----|----|
| | | N | P | M | D |
| Boundary Mark | 0 | 12 | 25 | 38 | 52 |

Introduction

- LE Report to be considered with the live external assessment and corresponding mark scheme.
- This was the fifth time learners sat this unit. Centre's have had access to sample marked learner work, the 1801, 1806, 1901 and 1906 papers, mark schemes and lead examiner's reports 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 an existing house maintenance business that had set growth in business profitability and value as its aim for the near future. Data was provided on a business opportunity which involved buying flood damaged properties which would be repaired and then rented out, or an opportunity to buy a piece of land and build three large houses for sale. Learners had to decide which of these two options should be followed and could make their selection based on whichever gave the greatest return or the lowest risk. Market data and trend information was provided for both the house building and house rental segments. Data was also provided on the costs of each option and the forecast selling price or rental price of the properties. Learners could therefore carry out financial analysis of each option such as gross and net profit, profitability ratios, return on capital employed, or the length of time it would take for the rental income to cover the initial purchase and repair costs. Learners were also provided with a statement of financial position for the business from which they could calculate liquidity ratios and use the data to help justify any loans required.
- 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 fifth sitting of the paper, the scenario of a small builder would have been familiar to most learners. Many were able to carry out simple calculations of costs and revenues, but a surprising number did not take the next step which was to calculate the net profit of option two or the net profit of option one assuming the houses were sold rather than rented.
- As in previous series, a number of learners attempted to come to a decision without carrying out any financial analysis. 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 assessment focus 4 and 5. Some learners simply copied the statement of financial position into their work. Learners need to use the data provided to carry out forecasts 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 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 goal, which was to increase business profitability and value.

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 how the business should develop. This approach limited learners to marks at the bottom of band 2.

In the example below, the learner has taken the information provided and restated it. The work does not go on to say how the information might help identify the best option to follow, and was awarded 4 marks.

| | | |
|--------|---|------------|
| | <p>Current business</p> <p>With 20 years of domestic house repair experience in market there is Tiego Building which is owned by Tiego Moremi.</p> <p>Currently the company does roof repairs, building extensions and work that occurs when a flood or damage has happened. There are two full time employees and the owner which currently does most of the work. When the specialist skills are needed for the larger projects Tiego can employ the workers on a temporary contract</p> | AF1 |
| CS | <p>Market</p> <p>Currently the demand for new houses is still increasing and is greater then the rate of supply. From research it has indicated that 240,000 houses every year from the current time to 2029. If the supply is not increased the prices of houses will increase. This is not applied to all areas of the UK. Average price of a house in the west midlands is £190,000 and in the UK is £245,000. The average increase annually in houses prices from June 2018 was 3%. Since 2013 this is the lowest rate. A reason for this is the amount of borrowing cost increased which was from the base interest rate and the other was because of August 2018 increase in interest rates.</p> | AF1 AF1 |
| CS/AF1 | <p>There has been an twi initiatives which have been set up to motivate house building one is £100million cash boost which is for the housing growth partnership, the other is £4.5billion for home building fund. The initiatives give access to loans for buildiers to get more housing projects or developments started. lin result of the initiatives or the slowdown increase in house prices the number of houses increased as shown:</p> | AF1 |
| CS/AF1 | <p>2016 was 169,200 houses, 2017 was 178,900 houses and 2018 192,920 was built as you can see from this data the growth of houses built have increased.</p> | AF1 |
| | <p>Currently the market for renting houses is still very powerful, the average priced rent in west midlands is approximately 30% of an individuals income. From 2012-2018 the rent prices have increased by 18%. Young people from 18-34 rent privately owned properties this is 40-60% and on the other hand with 45 and above which is 10%.</p> | AF1 |

In the second example, the learner is using the data provided to justify why an option may be appropriate to the business owner. The data is supporting the comment and has not simply been copied from the case study. The learner discusses the demand for housing and how this is an advantage to the business,. They go on to suggest the government initiatives to builders could be detrimental to the business as many of the competitors would be much larger and therefore more able to receive funding. In the

last part of this clip, the learner discusses the rise in rental charges and the demographic, and links this to the potential for the business to increase profits by selecting option 1. This approach of using data to justify the key points made enables the learner to achieve high band 3 or band 4 for this assessment focus.

AF1
AF2/4
AF4/1

Additionally, an opportunity for Tiego building services LTD is that there is not enough housing and therefore the market for rented houses continues to be strong, this suggests that option 1 would be successful for my client, also as there is a lack of supply and high demand rent prices will go up which means more profitability for my client which are one of his aims. However, a threat for my clients business is that larger business are receiving more government funding, there were initiatives of £100 million cash boots for housing growth partnerships and £4.5 billion for home building funding, this could push a small business such as my clients off the market as larger businesses are seen as more reliable however, this can still be an opportunity as this is only for building houses and not renting them, in the data given, the market for renting continues to be strong which is a positive for my client. The average rent in the west midlands are around 30% on an individuals income, rents have now increased by 18% making it 48% which is nearly half of an average persons income; this rise happened between 2012 – 2018, this increased shows potential success for my client as his profits are likely to go up as renting prices are getting higher. However, over half (40-60%) of young people between ages of 18 – 34 ret privately, high renting prices may deter younger people as they could potentially still be in education such as university and may not be able to afford it where as there is only 10% of adults aged 45 and =above who could be interested in Tiego business plans.

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

Some learners used sub headings in their work for Physical, Human and Financial resources.

For financial resources, learners discussed the costs associated with the two options and some learners commented on the difference between them. Many learners made the comment that option two would require a substantial loan when compared to option one. Some tried to use the statement of financial position to calculate the amount of loan required. However, some thought that all of the £270000 capital held in the business could be used for the development, rather than simply the cash balances or the net current assets.

In this series, most learners identified that each option had very different human resource requirements. Some learners brought their knowledge from the unit 6

management paper and put forward scenarios where zero hours contracts could be used to fill any skills gap if option two was chosen. Some discussed training requirements. Neither approach was appropriate in this case as the business would be employing skilled contractors on a temporary basis.

The most obvious example of physical resources was the flood damaged houses, the building materials and the equipment used by the business to build and repair houses. Some learners commented that as a result of leaving the European Union, material prices may go up and workers wages may increase as cheaper labour would have left the UK.

With respect to time as a resource, many learners used the fact that repairing houses could be achieved in three months as a reason to choose option one rather than wait 12 months for houses build in option two to be sold.

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

Human resources

The business currently has two full time employees with the owner also working.

Time resources

Option one insists on the 3 month time period and option two insists on 12 months to complete their project. AF2

In this next example, the learner has incorrectly used the total capital in the business to discuss the reduced loan requirements for option 1. Despite this error, the learner still achieved high band 2 marks by correctly identifying costs and revenues for the option, and for the discussion on time and human resources.

Resource implicationsOption 1

AF2 Finance: An implication of my client's financial stability is that his total capital is £270,000 and cost to buy all 4 houses is 260,000. This would leave my client with £10,000 to complete renovations and each house costs £11,000 my client would need to take out a lone of around £50,000 to complete all renovations which come up to £44,000. In one year, my client would make 21,600 of all the rent. The value of all 4 houses was 260 thousand but after renovations has now increased to 340 thousand.

AF4 This means his businesses is becoming more valuable, which is one of aims.

AF2 Hr resources: in terms of HR my client would need to recruit staff to work for 3 months however they must be highly skilled and able to work under time pressure, this may take some time to recruit. This could also mean higher wages as highly skilled workers will not be cheap. The longer my client takes the longer it will take for him to make profit and break even.

In this final 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.

Resources –

Option 2 –

Time -

the building of three new houses will take 12 months, considerably long than options 1 time frame. It means that they lose an entire year to one project that meaning that they could potentially lose out on doing other profitable jobs.

Physical –

the plot of land Tiego is looking at, has the potential to build three new large houses on it, it already has planning permission for three houses, so Tiego doesn't have to worry about that, it is in a popular residential area in the west midlands meaning that it should fetch a higher price and therefore make Tiego more money and profit.

AP2

Human –

due to the large size of the project, extra workers are required to meet the requirements of the extra work load. It means that they will have to be hired on fixed term contracts for the 12 months of the project, as it such a long fixed term contract it will be cheaper than agency or subcontracted staff which are often cheaper than fixed term workers, this makes the project more profitable due to lower costs.

Financial –

the piece of land that Tiego wants to buy for the new build housing will cost him £175,000 pounds. There will be a grand total cost of £831,250 for the project and a total value at sale of £1.35 million pounds, they would make a total profit of £518,750

AP3

To complete this will have to get a loan or get a government funded loan from either the £100 million housing growth partnership and/or the 4.5 billion home building fund, they would all be loans and they would all require pay back and could make the project less profitable but the government loans would be cheaper and so better for the business

AP3

AP4

Assessment Focus Three: Financial forecasting

Most learners were able to use the data provided to calculate the costs and potential sales revenue for each option. Some learners did then take the next step which was to calculate net profit or net profit margin. Centres are reminded that without any financial analysis, learner's final decisions cannot be considered properly justified and marks will not only be lower in this assessment focus but also lower in AF4 and AF5.

Many learners tried to calculate gross for option 2 but failed to include the cost of the land in the calculation. This meant that not only was the gross profit incorrect but also the net profit. Benefit of the doubt was given to these learners who were credited for errors carried forward and so their net profit and net profit margins were considered correct. A few learners were able to calculate the return on capital employed, but again some of these were not fully correct due to earlier errors calculating profits. Other learners were able to calculate the liquidity ratios from the statement of financial position and then made comment on how this meant the business could pay its bills on time and would therefore be able to obtain a loan.

In some cases, learners made a judgement to go with option 1 because it had the lowest cost, without looking at the time to recover all costs, or the size of the net profit generated if the houses were sold.

A small number of learners attempted to produce a cash flow or 'cash inflow' forecast using the data provided. In some cases, they inaccurately identified the costs as annual costs and therefore the forecasts were incorrect.

Having performed the calculations, a number of learners then used the financial analysis to build a justification for one option or the other as part of their SWOT/PEST analysis.

In the example below, the learner has calculated the revenue from option 2. This is the only financial calculation the learner has attempted and so this achieved bottom of band 1.

SWOT option 2

| Strength | Weakness |
|---|--|
| <p>Larger amount of income</p> <ul style="list-style-type: none"> - As each house is expected to sell for £450,00 that is $£450,00 \times 3 = £1,350,000$ expected return <p>Less expenses after sold</p> <ul style="list-style-type: none"> - There are no liabilities after the house has been sold to the individual so no plumbing fixes or electrical | <p>Price may be too high</p> <ul style="list-style-type: none"> - The price of the houses can be too high for the area or too valued so not many people will be looking to buy a house for this price <p>Time consuming</p> <ul style="list-style-type: none"> - It is shown to take 12 months to complete this project which is a set back to profits |

Handwritten annotations: AF4 (left), AF3 (left), AF4 (right), AF4 (right)

In the second example, the learner has correctly calculated the net profit, net profit margin and the return on capital employed for both options. This is sufficient to achieve low band 3. It should be noted that assessment focus three not only requires learners to produce a forecast, but to also demonstrate they

understand what these forecasts mean for the business. In this example the learner has made the error using the £270000 value from the statement of financial position as part of the loan calculation and does not therefore fully demonstrate good understanding of a range of financial concepts. To achieve band 4, the learner could have calculated the 14 years taken for the rental income to cover the costs of option one or they could have calculated the liquidity ratios from the statement of financial position. These calculations would then be discussed in some detail.

Finances

| | Option 1 | Option 2 |
|----------------------------|----------|----------|
| Total cost | £304000 | £831250 |
| Total sale revenue if sold | £340000 | £1350000 |
| Net profit | £36000 | £518750 |
| NPM | 10.59% | 38.43% |
| ROCE | 11.84% | 62.41% |

AF3

Option 1

for option 1 the total cost of the houses would be £260,000 and the total cost of repair is \$44,000 pounds, the project has a total cost of £304,000 pounds.

£85,000 pounds each (totally £340,000) this means that they would only make £36,000 pounds, they are going to rent out the properties for £5,400 a year giving them a total income of £21,600 pounds.

AF3

Due to the preexisting capital that Tiego has the loan amount would be relatively small of only £34,000 pounds on top of the £270,000 pounds they have currently.

AF4

Option 2

there will be an extra £153,750 pounds for each house (£461250 for all three), due to labour costs as there will need to be more staff to complete the project. there will also be an additional £65,000 pounds required to purchase the raw materials required for the builds per house (£195,000 pounds for all three), this means that there is a massive total price of £831,250 for all of the houses to be built. but once each house is sold it is expected to sell for at least £450,000 pounds, this means that totally the houses should sell for £1,350,000 meaning that they would make a total profit of £518,750.

AF2

The loan amount required for this option is £561,250 pounds on top of the £270,000 that they had already to dispose of in there projects.

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

Once again, 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 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 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 government initiatives to stimulate house building. Brexit was also a popular item in most PESTLE discussions.

Some learners produced a Porters 5 Forces analysis or a 5 C analysis model, but these were quite basic or generic. Some learners attempted to produce a marking mix for the two options.

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.

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

- Total costs
- Revenues
- Profits
- Investment returns
- Government loans/initiatives
- Option to sell rather than rent in option 1
- Location issues re future flooding
- Trends in house building and rental incomes
- Risk from competitors
- Time differences between option 1 and 2
- Cost of finance
- Time taken to recover cost if continue to rent (option 1)

The following is an example of a low band 2 SWOT analysis which is a simple list of points with some limited development/rationalisation. To achieve higher mark, the development of each point should have been more detailed and should have some comment linking back to the achievement of the business goal of increased profitability and value.

Whilst learners seem to like producing SWOT tables, this is not the most effective way of rationalising the key factors and linkages to the business goals.

Option 1 SWOT

| | |
|---|---|
| <p>Strengths:</p> <ul style="list-style-type: none"> • Cheap price for each house of £65,000 per house. <i>AF1</i> • Repair cost is only £11,000. <i>AF2</i> • Quick repair time of only three months for all four of the houses. <i>AF4</i> • After renovation value of each house is £85,000 each meaning that there is a profit of £9,000 per house. This is because $65,000 + 11,000 = 76,000$ and each house has a value of 85,000 resulting in the £9k profit of each house. <i>AF3</i> | <p>Weaknesses:</p> <ul style="list-style-type: none"> • If chosen to rent out the rent is relatively low so not much money will be made. • Only £5400 of rent per year on each house totalling to £21,600. This means that choosing the option to rent out the house are a short term loss as if selling the house will give Tiego more profit. $£9k * 4 = £36,000$ profit <i>AF5</i> |
| <p>Opportunities:</p> <ul style="list-style-type: none"> • If sold to customers the profit made could be used in order to buy other damaged properties and renovated to be sold on the market yet again. <i>AF4</i> • If Tiego chooses to rent it out to customer's then that means a guaranteed income coming in for as long as the tenant's decide to live therefore which means that they <i>AF4</i> | <p>Threats:</p> <ul style="list-style-type: none"> • Due to that area in the west midlands that have had their houses damaged by the floods there is a high risk of that happening again. <i>AF4</i> • People may not want to buy or rent in that area due to the history it has had |

Option 2 Swot

| | |
|--|--|
| <p>Strengths:</p> <ul style="list-style-type: none"> • Land is only costing £175,000 <i>AF1</i> • It is a popular residential location in the west midlands. • the planning consent has been approved for all three houses. • Each house will sell for £450,000 once completed. | <p>Weaknesses:</p> <ul style="list-style-type: none"> • £65,000 is an additional cost on top of the land for the raw material cost. • £153,750 is for other costs such as renting additional equipment, provision of water, gas and electricity and labour costs and that is for each house. <i>AF2</i> |
| <p>Opportunities:</p> <ul style="list-style-type: none"> • Due to it being in a popular residential location there will be no problem in looking for customers to purchase the houses as there will already be a high demand for its which could mean house prices could increase slightly. <i>AF1</i> • A lot of profit can be made a total of £231,250 of profit. <i>AF3</i> • Planning consent has been approved meaning that Tiego does not have to wait any further. <i>AF1</i> | <p>Threats:</p> <ul style="list-style-type: none"> • A lot of money has to be invested in order to complete the house. <i>AF2</i> • Due to extra staff having to be employed it means that that labour costs have increased. |

The second example shows part of a SWOT analysis conducted for option 1. There was a similar approach for option 2. The learner is using data provided in the case study to help develop their rationale for the option. However, the learner used only the one decision making tool which limits the potential mark available. The work does link back to the business goal – strength bullet 3 ‘maximise profits’ and weakness bullet one ‘higher price would affect profitability and overall growth’, and so the work was assessed as mid band 3

Whilst this is a solid approach to a SWOT analysis, it does not meet the grade descriptor for band 4 which requires comprehensive coverage and work that is fully rationalised, as well as being clearly linked to context and business goals.

Strengths

- **Less risky:** Option 1 is genuinely an option that will bring less financial risks and even personal risks relating to the owner of *Tiego Building Services*. The lack of risk for this option is due to the **low costs** to buy and improve the 4 houses is relatively lower than Option 2, which results in a safer investment as they will not be spending too much money into this project, they will not need to secure their assets etc.
- **Timescale of project:** According to the case study, the repair for all the 4 houses will last an estimated 3 months after they have been bought. This means that the renting of these houses can be used as a resource of income quicker than expected.
- **Value of the houses:** After the renovation and improvements have been made, each house would have a value of £85 000, which is £20 000 than the historic value previous the purchase. This is beneficial for *Tiego Building Services* as they could sell the houses in the future for a higher price that would definitely maximise profits.

Weaknesses

- **Low yearly income:** The first option may offer benefits to the company in this case, but the low yearly income can be seen as a constraint. This is because, after investing £304 000, the income should theoretically be more rewarding and be higher than it is estimated to be, this may affect the profitability and overall growth of this business.
- **Potential fall in house prices:** This is a very serious disadvantages as a potential fall in house prices could impact the price of renting a house. This would decrease the monthly payments that customers would pay to rent and live in the newly improved houses, it would impact *Tiego Building Services* with lower chances of making profits.

Opportunities

- **Flexibility:** This option offers high flexibility for the company. The meaning of this is that, at the same time they are receiving income from the rent payments, they can still offer their usual services such as home extensions, roof repairs, maintenance etc. This shows flexibility as they are able to carry on working while they receive a side income from the monthly rent payments and these could help pay for costs such as wages, stock, etc.
- **Market for rented houses:** The market for rented houses has continuously grown. The case study affirms that rents have increased by 18% from 2012 to 2018 which is excellent news for Tiego Building Services if they choose this option. Rents are classified as 30% of an individual's income, which is a lot of money that building companies like TBS would be earning.
- **Demand for houses:** The demand for houses has increased over the last few years. And this option will add 4 more houses to the market which all will belong to this company. This means that as the demand has risen, it should not be difficult to quickly rent these houses as soon as possible due to the demand for new houses and strong market for rented houses

Threats

- **Natural disaster:** One of the main threats for this option is that there is risk of natural disasters affecting the environment. The case study says that the existing houses were purchased in an area where there has been damaged by floods. This suggests that there are high chances natural disasters such as this one may happen in the future and it could cause prejudice to *Tiego Building Services* if the 4 houses have already been made available to rent or there are customers living there already.
- **Reduced demand due to interest rate rises:** This is also a main risk that could affect the ability of this company to rent their properties to customers. The interest rates are rising which has reduced the demand for purchasing and renting of new houses. This may result in complications to find customers who will happily rent one of the houses.

Assessment Focus Five: Supported decision making.

Some learners produced a report but failed to provide a final decision on which option to choose. Those learners who had failed to complete a financial analysis provided only a partial justification of which option they considered was most appropriate for the business. Higher achieving learners used all of their financial calculations and other analysis to produce a convincing and coherent decision.

The example below shows an example where the learner fails to come to a decision, instead discussing the need for contingency planning. This response achieved no mark.

Recommendations

Tiego business should consider carrying out a contingency plan if the both options do not seem to work out. Tiego could also make sure that he analyses the two options by using porters five forces to help him divide his thoughts and factors. Another recommendations that he could consider is thinking carefully about what option to pick as option involves a lot of money. Also he should pick out the correct employees that have the required skills with a lot of experience as it will mean the employee will know what he is doing with minimal problems or faults occurring.

In this second example, the learner was awarded 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 1.

Conclusion:

As a conclusion, I will now evaluate and put into balance both options and make a decision that can help Tiego Building Services to reach their goals of increase business profitability and value. Firstly, option 1 is definitely a safer, less risky and flexible option. This is because, due to the realistic fact that this is a small business, they may have business experience as they have been in the local market for a while, but the type of investment in option 1 seems to be a more affordable one. The option presents much lower costs, exactly £527 250 cheaper than the second option. By buying and renting houses, the company will not need to worry about expanding their staff to complete the project and built the houses from scratch, and the owner will not have to rely on a loan to secure his business' and personal assets, reinforcing it is a safer choice. Although, if this is the business choice they make to develop Tiego Building Services they need to be aware that it is a flexible option that even though it has lower costs, it will not bring an extraordinary amount of cash back. The annual income will be £21 600 which seems a reasonable amount as by renting properties, the

workers can still carry on offering their services to customers in order to maximise profits. The time scale of this option is also another reason why it should be considered, it will only last 3 months for the construction projects to be finished which is enough time for the business to bring awareness of the newly renovated houses and start to receive income from rent payments

On the other hand, option 2 may not be the best option of choice. This is because a small business with only 3 workers including the owner cannot get such a large project done by themselves. The costs for this option will be extremely high due to requiring more workforce from skilled workers, raw materials costs etc. The time scale of this option may also be a constructing because the case study says it will take 3 months to get all the 4 houses finished and ready to sell, this means that it will be over a year until the business owner receives any income from such an expensive investment. Although, this option may also have some benefits that could be used as a counter argument, the amount they would receive is £1 350 000 if all the houses have been sold, this is the fixed amount of money that the business would earn in 62 yearly payments of £21 600 from option 1. Although, the interest rates and high prices may not guarantee that the houses will be sold for this amount which is why this option may not be suitable. There is no guarantee that their houses will be sold for such a high amount of money each, which is why I would recommend Tiego Building Services to consider choosing option 1 to achieve their future business goals.

Assessment Focus Six: Presentation and structure

Reports were usually well presented with learners achieving 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 was not required for top of band 4. Learners continue to lose marks for poor structure in the report and for the lack 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 their conclusion 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 the report into the presentation speakers notes also failed to score highly as they did not demonstrate ability to select appropriate data.

In the example below, the learner has provided a very limited summary of the business proposal with an outline of what the business does. This response achieved only band 1. Learners need to ensure they use sufficient information from the case study to set the scene for the decision that is to be summarised in assessment focus AF8 and AF9.

Current Business

- Tiego building services Ltd is the name of Tiego's business.
- Tiego building services Ltd have over 20 years of experience in the domestic house repair market.
- The company is owned by Tiego Moremi.

The business has 20 years of past experience which shows that they have been on the market for a very long time resulting in them being able to carry out houses being built to a quick and good standard. A lot of the work is done by the owner himself and two other full time members of staff. If the housing project is a larger project than normal then Tiego will hire staff on a temporary contract. This means that whenever the work is done employees will not be getting paid for not working which saves Tiego's business money.

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. Some learners produce work that looks either at the finances or the key factors. To achieve 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. Furthermore, the decision made in activity one must be carried through to this activity.

The example below achieved band. It used the SWOT analysis from activity 1 and referenced some costs and revenues, but did not have correct profits to be able to justify a higher mark.

Option 1

- Cheap cost of each house.
- Repair cost of £11,000.
- £9000 profit per house.

| | |
|--|---|
| <p>Strengths:</p> <ul style="list-style-type: none"> • Cheap price for each house of £65,000 per house. • Repair cost is only £11,000. • Quick repair time of only three months for all four of the houses. • After renovation value of each house is £85,000 each meaning that there is a profit of £9,000 per house. This is because $£85,000 - £11,000 = £76,000$ and each house has a value of $£85,000$ resulting in the £9k profit of each house. | <p>Weaknesses:</p> <ul style="list-style-type: none"> • If chosen to rent out the rent is relatively low so not much money will be made. • Only £400 of rent per year on each house totalling to £21,600. This means that choosing the option to rent out the house are a short term loss as if selling the house will give Tiego more profit, $£9k \times 4 = £36,000$ profit. |
| <p>Opportunities:</p> <ul style="list-style-type: none"> • If sold to customers the profit made could be used in order to buy other damaged properties and renovated to be sold on the market yet again. • If Tiego chooses to rent it out to customer's then that means a guaranteed income coming in for as long as the tenant's decide to live therefore which means that Tiego will have that money to spend on other properties. | <p>Threats:</p> <ul style="list-style-type: none"> • Due to that area in the west midlands that have had their houses damaged by the floods there is a high risk of that happening again. • People may not want to buy or rent in that area due to the history it has had. |

Option 1 – could quite frankly could be seen as the lazy option this is because it doesn't have huge costs as option two does. It will only take three months to complete which is not a lot of time. Extended time could then have to be used in order for the houses to be completed.

Option 2

- Land is £175,000
- Popular residential area
- Planning permission has been approved.

| | |
|--|---|
| <p>Strengths:</p> <ul style="list-style-type: none"> • Land is only costing £175,000. • It is a popular residential location in the west midlands. • the planning consent has been approved for all three houses. • Each house will sell for £450,000 once completed. | <p>Weaknesses:</p> <ul style="list-style-type: none"> • £65,000 is an additional cost on top of the land for the raw material cost. • £153,750 is for other costs such as renting additional equipment, provision of water, gas and electricity and labour costs and that is for each house. |
| <p>Opportunities:</p> <ul style="list-style-type: none"> • Due to it being in a popular residential location there will be no problem in looking for customers to purchase the houses as there will already be a high demand for it's which could mean house prices could increase slightly. • A lot of profit can be made a total of £231,250 of profit. • Planning consent has been approved meaning that Tiego does not have to wait any further. | <p>Threats:</p> <ul style="list-style-type: none"> • A lot of money has to be invested in order to complete the house. • Due to extra staff having to be employed it means that that labour costs have increased. |

A lot of money will go into this option but in the end the value of the houses will be a lot resulting in Tiego receiving over £230k profit per house.

Assessment Focus Nine: Presentation design and structure

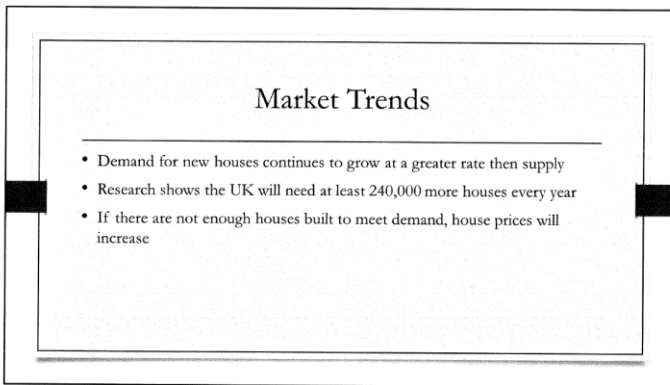
Most of the learners created slides with a coherent structure and some appropriate speaker notes. Many used bullet points and kept slides clear and easy to read, leading to a professional appearance.

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.

Some learners failed to provide any evidence for activity 2.

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

The following represents a band 3 presentation. It has a good summary of the proposal and uses both financial and other key data to put together a potentially convincing argument.



In June 2018, the rate of increase in house prices was 3%. This was due to interest rates increasing. The government want building businesses such as yourselves to start building more houses so there were two initiatives introduced. One of these initiatives was the £100 million cash boost for housing growth partnership and the other was a £4.5 billion home building fund. These initiatives provide loans to builders to help get more housing developments started. This shows that more houses are needed.

The Main Risks

- A potential fall in house price
- Reduced demand due to interest rate rises
- Economic uncertainty

A potential fall in house price can occur but the demand for houses is getting higher. Which means that house prices may drop slightly but as they are in such high demand they cannot be dropped much as people needed houses so are more lenient with pricing.

The annual rate of increase in house prices in June 2018 was 3%. This was the lowest rate of increase since 2013. A reason for this was due to interest rate rising. At the same time 2018 had a major increase in houses being built with a number of 192,920. This shows that the demand is not being affected so houses will sell instantly and are much needed.

Economic uncertainty Can be a risk of both options.

The Two Options

- Buy and renovate four existing houses to rent
- Buy a plot of and build three houses to sell

As you will be aware both options carry an element of risk as the future is not foretold.

Options 1

- Buy and renovate four existing houses to rent

Option 1:
 Money coming into the business: £340,000
 Money being spent: £304,000
 Profit: £36,000

Option 1 can be a risk due to flooding in the area which means that if Tiego spent £304,000 on doing up the houses and only has a profit of £36,000. If there was to be a flood he would not have enough funds to be able to recreate those houses. Especially if the houses are being rented but he is still the owner so much money would need to be spent as well as removing tenants from the property which will also cause struggle for them as they would need to find somewhere else to live. This can also cause a bad reputation for Tiego. He would also need a loan from the bank which he would have to pay back as he has £270,000 from last year so he would still need £34,000 to cover the costs. Whereas in option 2, the land is in a popular residential location and so these are almost guaranteed to be sold quickly. The profit from option 2 is much larger and does not have the threat of flooding. Renting properties can also cause problems and you can end up spending a lot more on the property such as if something is broken or if the tenants mess up the property. Due to the decrease in profit that would be made it would be hard to maintain the properties.

Option 2

- Buy a plot of and build three houses to sell

Option 2:
 Money coming into the business: £1,350,000
 Money being spent: £831,250
 Profit: £518,750

Option 2 will take longer but will receive much more profit and if employing new employees they can be paid also and there should be a lot of money still left over. This can then be used to create a new development and the cycle will be ongoing. Tiego will have to secure a loan against business assets and his own home. The land is worth a lot as money can be made easily on this land so that could cover a lot of problems and they are guaranteed to make a lot of profit even when the money has been spent. Tiego also wanted to be involved in larger projects so this is a good opportunity to help expand his business. Tiego hiring employee's on temporary contracts is a great idea so, they have the specialist skills needed to complete the job so he knows it will get done properly and this also helps avoid employing too many staff in order for them to be paid and stand around but this way he knows these people can help with the jobs he needs. A potential fall in house prices can occur but they have been increasing in previous years and the demand for housing is high which means prices will not change due to the demand for housing as people need a place to live.

Expanding the Business (recommendations)

- More employees
- Larger projects
- Experience in different sectors

Tiego can expand his business by doing larger projects as it can also allow him to meet new people and be involved in larger contracts. Tiego would also be earning a lot of profit in his first year so he can keep reinvesting his money into the business to get more large projects. Tiego made £270,000 in profit last year so this will be helping to show his business is expanding by nearly making just under double the next year. The government are also trying to encourage the building of more houses by introducing two initiatives. One of these initiatives was the £100 million cash boost for housing growth partnership and the other was a £4.5 billion home building fund. These initiatives provide loans to builders to help get more housing developments started. Tiego can also use his profit from last year to help pay employees and to help him with money as the project will take 12 months. Number of new houses being built has also increased since 2016. Tiego has had lots of experience in the house repair and damages caused by flood but Ig Tiego wants to expand his business he needs to consider other options and getting more experience in different sectors. The company builds extensions so is aware of building from scratch and also with his skills he can make sure houses are built so that problems do not occur.

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 1 requires learners to select and interpret data that has been provided, not simply copy the task into the report
- Assessment focus 2 requires learners to discuss financial, physical, human and time resources. Learners can comment on staffing issues, location issues, timing of individual options, or the costs involved
- For assessment focus 3, the financial forecasting, learners have to decide which options should be followed. Typically, Data will be provided on such things as start-up and running costs of each option, or the forecast sales levels and average selling prices. Learners should be prepared to carry out financial analysis of each option, not just on any historical financial data provided on the business or industry. This analysis can be in the form of gross and net profit, profitability ratios or return on capital employed. Learners may also be able to carry out break-even analysis if the average selling prices and the fixed costs have been provided. Unless financial analysis is undertaken, marks will be restricted for the key factors and risks (AF4) and marks for the decision (AF5). Investors would always expect some financial data to be provided in such circumstances
- For AF4 & AF5, learners have to identify key factors and risks, and come to an informed decision on which option to choose. 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 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

- 18 marks are available for this activity. A great many earners continue to score less than half marks in this section. Spending a little more time on activity 2 could make a difference
- Simply copying the majority of the activity 1 report into the speakers notes for activity 2 does not demonstrate selection. Learners should only use data relevant to the task
- For assessment focus 7, the business proposal, many learners do not provide a detailed overview of the market and choices available and so score only 1 or 2 marks
- Marks for assessment focus 8 will be limited if no financial data is used to prepare the 'pitch' for investors. Finance and other key factors should be used here to justify the final decision made
- For higher marks on AF9, the presentation, the presentation must be able to engage and convince investors of the viability of the decision taken.



Llywodraeth Cynulliad Cymru
Welsh Assembly Government



For more information on Pearson qualifications, please visit

<http://qualifications.pearson.com/en/home.html>

Pearson Education Limited. Registered company number 872828
with its registered office at Edinburgh Gate, Harlow, Essex CM20 2JE

