

Cambridge Technicals Business

Unit 3: Business decisions

Level 3 Cambridge Technical in Business
05834 - 05837

Mark Scheme for January 2021

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This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which marks were awarded by examiners. It does not indicate the details of the discussions which took place at an examiners' meeting before marking commenced.

All examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes should be read in conjunction with the published question papers and the report on the examination.

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Annotations

Annotation	Meaning
Tick	Valid point, mark awarded
Cross	Incorrect
Question mark	Response unclear
BOD	Benefit of doubt (mark awarded)
TV	Too vague (mark not awarded)
REP	Repetition (no additional marks awarded)
NAQ	Not answered question (incorrect focus)
L1	Level 1 response (identification)
L2	Level 2 response (explanation)
L3	Level 3 response (analysis)
L4	Level 4 response (evaluation)
CONT	Context (required for high L4 award only)

Subject-specific marking instructions

For Level of Response marked questions marked over 4 levels, the candidate can access at L1 or L2. In either case, they can analyse the point made and proceed directly to L3.

L3 analysis is required before L4 can be accessed.

Question		Answer	Marks	Guidance										
1	(a)	<table border="1"> <thead> <tr> <th>Business Decision</th> <th>Tick (✓)</th> </tr> </thead> <tbody> <tr> <td>Deciding to change the supplier of the soap perfumes</td> <td></td> </tr> <tr> <td>Deciding to conduct market research using a focus group</td> <td>✓</td> </tr> <tr> <td>Deciding to introduce a new range of novelty hand-made soaps</td> <td></td> </tr> <tr> <td>Deciding when to launch an advertising campaign</td> <td>✓</td> </tr> </tbody> </table>	Business Decision	Tick (✓)	Deciding to change the supplier of the soap perfumes		Deciding to conduct market research using a focus group	✓	Deciding to introduce a new range of novelty hand-made soaps		Deciding when to launch an advertising campaign	✓	2	<p>One mark for each correct response.</p> <p>If three or more ticks are given, mark all as TV and award zero marks.</p>
Business Decision	Tick (✓)													
Deciding to change the supplier of the soap perfumes														
Deciding to conduct market research using a focus group	✓													
Deciding to introduce a new range of novelty hand-made soaps														
Deciding when to launch an advertising campaign	✓													
1	(b)	<p>Responses include:</p> <p>Strategic decisions:</p> <ul style="list-style-type: none"> • Affect the direction of the entire business • Have a long term impact • Are complex/multidimensional/large/costly/made by directors and owners • Focuses on meeting business aims and objectives <p>Operational decisions:</p> <ul style="list-style-type: none"> • Affect one specific area/function of the business • Affect routine matters • Have a short-term impact • Have a narrow/day-to-day focus/repetitive/limited resources/made by staff at all levels 	2	<p>One mark for a relevant feature of either a strategic or an operational decision. One mark for a contrasting feature of the other type of decision.</p> <p>Maximum one mark for a valid point, about either strategic or operational decisions, that is not contrasted.</p> <p>No marks for examples of decisions e.g. 'introducing novelty soaps is strategic'.</p> <p>No context required.</p>										

Question		Answer	Marks	Guidance
		<p>Example responses: Strategic decisions affect the whole business (1) but tactical decisions only affect one department (1).</p> <p>Affects the long term direction of the business (1) for example deciding to introduce novelty soaps.</p> <p>Strategic decisions are long-term (1) but operational are day-to-day (1)</p> <p>Shop-floor workers can make operational decisions (1) but only directors/<u>senior</u> managers can make strategic decisions (1)</p>		
1	(c)	<p>Responses include:</p> <ul style="list-style-type: none"> • Option 1 • Option 2 • Remaining as a sole trader/Not having a partner • Impact on existing range of soaps • Producing soaps in the outbuilding at home 	1	<p>1 mark for identification.</p> <p>Accept any response that is not a feature of Option 3.</p> <p>NB the impact on existing products is not specified in the Pre-release so accept any 'opportunity cost' impact on existing soaps e.g. lower production, loss of sales etc</p>

Question		Answer	Marks	Guidance
1	(d)	<p>Responses include:</p> <ul style="list-style-type: none"> • Nature of bias, i.e.: Sarah's preference is for Option 3 • Reason e.g. Sarah wants to persuade James to choose Option 3 • Reason, e.g.: Because she has an interest in getting him to choose the only option that makes her a partner • Reason: She gains a share in any profits • Example of bias: Her figures might be favourable towards option 3 • Example of bias: She might exaggerate the costs involved with Options 1 and 2 <p>Example response: Sarah will only become a partner if James chooses Option 3 (1) so she has an interest in him choosing this option (1) so she might exaggerate the benefits of choosing this option (1).</p>	3	<p>1 mark for each of three linked points.</p> <p>Do not accept responses that do not show an understanding of bias. For example "Sarah might not be as good an analyst as she thinks she is".</p>
2	(a)	<p>Opening balance = Closing balance – net cash flow (1) (accept alternative approaches e.g. closing balance minus (cash inflow minus cash outflow) etc)</p> <p>Opening balance = 100 – - 500 = 100 + 500 = 600 (2)</p> <p>100 -500 = -400 (1 OFR) (recognises need to subtract NCF from CB but ignores impact of subtracting a negative number)</p>	2	<p>Up to two marks:</p> <p>No workings required</p> <p>Award full (2) marks for 600.</p> <p>Workings should only be marked if the final answer is incorrect. In which case award max one mark for the correct formula, if seen, whether in words or numbers.</p> <p>Award 1 mark (OFR) if -400 given as answer as result of subtracting 500 from 100.</p>

Question		Answer	Marks	Guidance
2	(b)	<p>Responses include:</p> <p>Net cash flow:</p> <ul style="list-style-type: none"> • The difference between all cash inflows and all cash outflows • Includes all cash receipts, including financial inflows and monies received from selling assets • Includes items appearing on the financial as well as income statement <p>Profit:</p> <ul style="list-style-type: none"> • The difference between business revenues and business expenses/Total revenue minus total costs • Ignores the financing and purchasing of business assets • Ignores items appearing on the financial statement <p>Example responses:</p> <p>Net cash flow is the difference between all cash inflows and outflows (1) but profit is only the difference between revenue and expenses (1).</p> <p>Net cash flow is all the revenue coming into the business (TV) whilst profit is the money left over after costs are taken away from it (1).</p> <p>Net cash flow is money that leaves the business (X) whereas profit is the money you have left after you minus all expenses from it (TV)</p>	2	<p>This question assesses synoptic knowledge from Unit 1 LO4 Be able to use financial information to check the financial health of businesses.</p> <p>One mark for a relevant feature of either net cash flow or profit. One mark for a contrasting feature of the other.</p> <p>Mark responses such as 'profit is how much money the business has made' as TV.</p> <p>No context required.</p>

Question		Answer	Marks	Guidance
2	(c)	<p>Responses include:</p> <ul style="list-style-type: none"> • Net cash-flow will <u>worsen/decrease</u> by <u>£5000</u> /Net cash outflow = £5000) • Cash <u>outflows</u> will be <u>£10 000</u> • Cash <u>inflows</u> will be <u>£5000</u> • <u>Existing cash</u> of <u>£5000</u> will finance the difference and currently appears as part of the opening cash balance <p>Example responses: Net cash flow worsens (TV).</p> <p>Net cash flow worsens by £5000 (1).</p> <p>Cash outflows will be £10 000 (1) but cash inflows will be only £5000 (1).</p>	2	<p>Up to two marks.</p> <p>For each bullet: both underlined parts needed i.e. a reference to the <u>cash flow item or change</u> and the <u>amount</u></p>
3	(a)	<p>Responses include:</p> <ul style="list-style-type: none"> • A list of the skills needed by the workforce is produced • The skills of existing employees (James) is identified • The two are compared • Skills gaps are identified • Skills gap information helps to produce recruitment documentation • Applicants with these skills would be shortlisted/recruited <p>Example response: James would identify the skills he possesses (1) and the skills he lacks (1) and then he would try to recruit employees who have the skills he lacks (1).</p>	3	<p>1 mark for each of three valid points. Accept three separate points or points developed.</p> <p>Do not accept responses that confuse a skills audit with selection e.g. ‘the skills audit will help them to recognise the skills of the applicant’.</p> <p>Do not accept responses which apply a skills audit to non-recruitment-related situations e.g. the training needs of the workforce.</p>

Question		Answer	Marks	Guidance
3	(b)	<p>Responses include:</p> <ul style="list-style-type: none"> • Work can take place whilst training is occurring • Less expensive than external training (allow ref to 'off the job' training) • James can provide the training himself • James can ensure the employee is taught exactly what is needed <p>Example response: James can deliver the training himself (1) so that he can make sure that exactly what is needed is taught (1) making it more likely that the new employee will work to the same standard as James (1)</p>	3	<p>1 mark for each of three linked points.</p> <p>Responses must relate to HSSJ and not its employees or customers. Accept answers which relate to James as he is a sole trader.</p> <p>Do not award generic benefits of training e.g. better skilled workforce, higher output etc.</p> <p>The explanation mark must be for the first benefit identified in the response – please read the whole response and consider whether the whole response contains an explanation of the first benefit offered.</p>
4	(a)	<p>Responses include:</p> <ul style="list-style-type: none"> • A cost-leadership strategy involves being the low-cost supplier in a mass market (i.e. selling cheaper than competitors) • Option 3 involves making high-quality soaps which are likely to be expensive to produce • HSSJ is too small to compete in a mass market • HSSJ's (average/unit) costs are likely to be higher than mass market firms • HSSJ would be likely to make a loss if it competed on price alone <p>Example response: HSSJ is too small to be the cheapest soap supplier in a mass market (1) so if it tried to sell its products cheaper than anyone else (1) it would probably go out of business (1).</p>	3	<p>This question assesses synoptic knowledge from Unit 1 LO6 Understand the external influences and constraints on businesses and how businesses could respond and LO7 Understand why businesses plan.</p> <p>Up to 3 marks for explaining why HSSJ could not successfully pursue a cost-leadership strategy.</p> <p>Accept three separate points or points developed.</p> <p>Award max 1 mark for recognising cost-leadership involves being the cheapest firm in a mass market.</p>

Question		Answer	Marks	Guidance
4	(b)	<p>Responses include:</p> <ul style="list-style-type: none"> • A differentiation-focus strategy involves selling unique/special products... • in a niche market • HSSJ would need to make sure that its products are different to other suppliers • It could then charge a premium price to reflect the quality and distinctiveness of its products <p>Example response: HSSJ could sell unique soaps (1) that mean it is not directly competing with mass producers (1) so it could appeal to people interested in paying higher prices for unusual products (1).</p>	3	<p>Up to 3 marks for explaining how HSSJ could use a differentiation strategy. Contextual discussion of soaps is not needed.</p> <p>Accept three separate points or points developed.</p> <p>Award max 2 marks for knowledge of differentiation focus.</p>

Question	Answer	Marks	Guidance
5	<p>Use level of response criteria</p> <p>Responses include:</p> <p>Benefits include:</p> <ul style="list-style-type: none"> • Clarity of decision-making: use of clear decision-making criteria (e.g. choosing option with highest ARR) • Based on numerical/quantitative data – easier to analyse than qualitative data • Less opportunity for disagreement • Profit is business' main objective • Decision making is easier/cheaper e.g, because fewer stakeholders need to be consulted <p>Drawbacks include:</p> <ul style="list-style-type: none"> • Ignores other factors (e.g. ethical considerations) • Requires the quantitative data to be accurate (i.e. free from error or bias) • May result in an option being chosen which has ethical drawbacks that may have a financial impact <p>Exemplar response 1 Using financial criteria alone has the benefit of clarity (L1). For example the option with the highest Average Rate of Return (ARR) could be chosen (L2). There would be fewer disagreements about which option to take (L1) meaning the decision-making process would take less management time (L2) making it more efficient for the business (L3). On the other hand there are other criteria that would be ignored (L1) for example the ethical impact or the views of stakeholders (L2) and this could mean that a decision is taken which loses the business custom (L3). Overall I would argue that Sarah is correct because the main objective of any private sector (CONT) business is to make a profit and this requires that decisions make financial sense for the business (L4).</p>	12	<p>Levels of response:</p> <p>Level 4 (10 – 12 marks) Candidate evaluates the impact on the decision-making process of only considering financial issues.</p> <p>Level 3 (7 – 9 marks) Candidate analyses the impact on the decision-making process of only considering financial issues.</p> <p>Level 2 (4 – 6 marks) Candidate explains the benefit(s)/drawback(s) to HSSJ of making decisions using financial criteria alone.</p> <p>Level 1 (1 – 3 marks) Candidate identifies benefit(s)/drawback(s) to HSSJ of making decisions using financial criteria alone.</p> <p>L4 evaluation: Award 10 marks for a general justification. Award 11 marks for a general justification with context. Award 12 marks for a detailed <i>or</i> specific contextual justification.</p> <p>L3 analysis: analysis must discuss the impact on decision-making (i.e. choosing the 'correct' option), not the choice of option (i.e. do not credit at L3 discussion of the financial impact of choosing a particular option – see below).</p> <p>Benefits/drawbacks must be business-facing i.e. for HSSJ.</p>

Question			Answer	Marks	Guidance
			<p>Example response 2 [Strong L2 response – see guidance]</p> <p>If decisions are made using financial criteria alone the business can use the lowest-cost supplier (L1). However this means that customers ethical concerns are being ignored (REP question) and this means they might view the business as being uncaring about the environment and animal welfare (L1) leading to a loss of sales (L2 and so a loss of revenue (L2) and so the business might be at risk of closing down due to lack of finance (L2).</p>		<p>No marks for definition/examples of methods of financial analysis.</p> <p>Responses which discuss the impact on the business of decisions taken can be awarded a maximum of Level 2 (e.g. discussion of the potential loss of revenue and profit resulting from choosing the cheapest supplier whilst ignoring customers' ethical concerns).</p>
6	(a)	(i)	<p>Responses include:</p> <ul style="list-style-type: none"> • Carry (extra buffer/emergency) stock of raw materials • Carry (extra/emergency) stock of the finished products made using this supplier's raw materials • Locate/use an additional/back-up supplier 	2	<p>1 mark for each of two appropriate contingencies.</p> <p>The risk in the question is that the supplier fails to deliver raw materials. The contingencies must be actions, taken before this event occurs, that are designed to limit the impact of the non-arrival of these supplies.</p> <p>Contingencies must help to prevent the problems that would occur if raw materials required for novelty soap production failed to arrive.</p> <p>Do not credit proactive actions designed to prevent the problem occurring (e.g. 'contact the supplier to remind them to deliver on time').</p>

Question			Answer	Marks	Guidance
6	(a)	(ii)	<p>Responses include:</p> <ul style="list-style-type: none"> • Cost of producing the contingency plans (e.g. management time and financial cost), i.e. time consuming, expensive to produce • Opportunity costs (of business activities unable to take place due to resources devoted to contingency planning) • Cost of any contingency actions taken that are not required (e.g. cost of holding additional buffer stocks to mitigate the potential impact of supplies not arriving when expected) • Planning may not identify all possible risks <p>Example responses: Planning takes up valuable time (1). Planning is a waste of time because the events may never happen (1) Planning is a waste of time (TV)</p>	1	<p>1 mark for identification.</p> <p>Responses must address the costs of planning for contingencies.</p> <p>Do not accept 'waste of time' unless this is linked to a valid cost.</p> <p>No context required.</p>

Question		Answer	Marks	Guidance
6	(b)	<p>Responses include:</p> <p>A risk register shows:</p> <ul style="list-style-type: none"> • potential risks of taking the business decision • the likelihood of the risk occurring • the extent of the impact if the risk were to occur • the overall severity • calculated by likelihood x impact • the actions to be taken to counter the risk (mitigation strategy) • the residual risk remaining as a result of the mitigation strategy <p>Example responses:</p> <p>A risk register show the negative things that could happen if the decision is taken (1) it also shows how likely the action is to happen (1) and how badly the business will be affected if it does (1).</p> <p>It shows all the things that could go wrong (1) together with how to solve them (1).</p> <p>The risk register shows the overall severity of a risk (1) by multiplying the likelihood by the impact (1).</p> <p>It shows possible risks to the business (1). The business can use a risk register to plan what do if this happens (NAQ – not describing the contents of the register).</p>	3	<p>Up to three marks.</p> <p>Accept three separate points or points developed.</p> <p>Do not accept examples that repeat a point already made.</p> <p>Do not accept 'shows risks that have occurred'.</p> <p>Do not accept explanations of how a risk register is used.</p> <p>No context required.</p>

Question		Answer				Marks	Guidance
7			Option 1 - Continue as at present	Option 2 – Increase production of existing products	Option 3 - Introduce a new range of novelty soaps	16	<p>This question assesses synoptic knowledge from Unit 1 LO1: Understand different types of businesses and their objectives.</p> <p>NB: This question can be answered from a general business perspective or from the perspective of a specific pathway/function (or a hybrid of both). In all cases the same level of response criteria apply.</p> <p>Levels of response</p> <p>Level 4 (13 – 16 marks) Candidate recommends and justifies which option <i>HSSJ</i> should take, based on analysis.</p> <p>Level 3 (9 – 12 marks) Candidate analyses one or more options under consideration at <i>HSSJ</i>.</p> <p>Level 2 (5 – 8 marks) Candidate explains issue(s) relating to one or more options under consideration at <i>HSSJ</i>.</p> <p>Level 1 (1 – 4 marks) Candidate identifies issue(s) relating to one or more options under consideration at <i>HSSJ</i>.</p> <p>L4 evaluation: Award 13 marks for suggesting the most beneficial option for <i>HSSJ</i> with justification for the choice. Award 14 marks for suggesting the best option with contextual justification for the choice. Award 15 marks for a detailed <i>or</i> specific contextual judgement of the most suitable option. Award 16 marks for a detailed <i>and</i> specific contextual judgement of the most suitable option.</p>
	Capital cost	£3500	£10 000	£25 000			
	Revenue expenditure p.a.	£4000	£12 000	£30 000			
	Payback	3 years 10 months	3 years 9 months	2 years 5 months			
	ARR	7.9%	8.8%	14%			
	Finance	£3000 business cash	£5000 bank loan £5000 business cash	£5000 business cash £25 000 Sarah Beswick in return for 50% share of new partnership			
	Impact on business ownership	Remain sole trader	Remain sole trader	Convert to partnership: joint-partners: James and Sarah (50% equal share of profit)			
	Impact on product/production	Organic growth of existing product range i.e. traditional-looking bars of soap	Doubling of production capacity – existing product range i.e. traditional looking bars of soap	Quadrupling of production capacity – move into a new market i.e. novelty soaps			

Question	Answer	Marks	Guidance
	<p>Exemplar response</p> <p>e.g. from a financial data and general business perspective Options 1 is the cheapest option (L1) but it also has a lower ARR than Option 2 (L1). It is also probably the least risky option (TV) because only £3000 investment is needed and the product range will stay the same (REP of scenario). Demand is expected to grow slowly (L1) and so this means that the amount of additional revenue James will receive will be relatively small (L2) so the impact on profitability will be relatively small (L3).</p> <p>Option 2 will require James to invest £5000 of business' cash (L1) reducing the business' financial contingencies whilst the rest of the outbuilding is being converted (L2). Any unforeseen event could therefore result in bankruptcy due to a lack of cash (L3).</p> <p>For Option 3 the majority of the funding will come from Sarah (L1). The problem is that this comes with strings attached and James would have to give up a lot of control of the business (L1). This could increase the chance of disputes in future (L2) which could slow-down decision making and make it harder for the business to achieve its objectives (L3). The benefit of this option is that it is the most profitable (L1) but this is assuming that Sarah's figures are not biased (L2) if they are then James could make an incorrect decision and giveaway control of the business unnecessarily (L3).</p> <p>Overall, I would choose Option 2. Whilst it is not the most financially viable there are other equally important considerations (L4) James is not creative (CONT) so this option enables him to continue making the products that are so successful with his existing customers and enables him to retain control of the business which is still very young (L4).</p>		<p>Do not credit 'risk' unless the type of risk is specified.</p> <p>Level 3 analysis is for recognition/discussion of the business impact of previous discussion credit at L1/L2.</p> <p>If discussion of business impact is not developed from a L1 point (e.g. it is developed from a point copied from the pre-release) then award as L1 the responses first original, valid point in the chain and then reward successive development at L2 or L3 as appropriate.</p>

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