

Cambridge Technicals Business

Unit 3: Business decisions

Level 3 Cambridge Technical in Business
05834 - 05837

Mark Scheme for January 2022

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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)	<p>1 External</p> <p>2 Forecasted</p> <p>3 Quantitative</p> <p>Data that can be expressed as numbers</p> <p>Data from sources within the business</p> <p>Data that is a prediction of future events</p> <p>Data from sources outside the business</p> <p>Data that cannot be converted into numbers</p>	3	<p>One mark for each correctly linked pair.</p> <p>Mark as TV any ambiguous responses e.g. two items on the left side linking to the same definition on the right side.</p>

Question			Answer	Marks	Guidance
1	(b)	(i)	Benefits include: <ul style="list-style-type: none"> • Research will be tailored to the needs of the business/first-hand data/answer its specific requirements • The results are more likely to be up to date • The results are not available for competitors to view • The money used to carry out the market research will be spent more efficiently 	1	Mark first benefit only. One mark for a valid benefit. No marks for knowledge of primary research Do not accept: <ul style="list-style-type: none"> • 'First-hand information' • unbiased • cheap
1	(b)	(ii)	Drawbacks include: <ul style="list-style-type: none"> • Research may be costly to collect • Research may take time/time-consuming to complete • Research may be inaccurate/may need careful use of sampling techniques to make it valid 	1	Mark first drawback only. One mark for a valid drawback. No marks for knowledge of primary research Do not accept 'biased' unless linked to poor sampling.
1	(c)		Possible reasons include: <ul style="list-style-type: none"> • Tom is production director • Tom might favour an option that involves more status for the production department • Tom might be suspicious of advertising as a solution to problems • Tom has a link to the founder (Jack) so might have an emotional commitment to the existing product range • Only one director making the decision in isolation may mean not all factors taken into account Example responses: Tom helped to design the existing product range (1) so he has an emotional attachment to it (1) so he is less likely to choose Option 2 because it will mean making changes to the products (1). Tom is Production Director (1) so he might be suspicious of using marketing to solve problems (1) so he might prefer either Option 2 or 3 (1).	3	One mark for each of three explanatory points, accept development. Credit points that link Tom's job-role or experience to a specific option being more or less likely to be chosen. Do not accept points that relate to the consequences of a biased choice e.g. loss of potential profits

Question			Answer	Marks	Guidance
2	(a)		<p>Indicative content:</p> <p>Average net cash flow = $\text{£}200,000/5 \text{ years} = \text{£}40,000 \text{ per year}$</p> <p>$\text{£}40,000/\text{£}800,000 \times 100 = 5 \%$</p>	4	<p>Up to 4 marks</p> <p>No workings required. Award 4 marks for the correct answer '5' (%) if written at the bottom of the answer space or clearly indicated as the answer.</p> <p>Else award:</p> <p>3 marks for '5' with incorrect units e.g. '£5'. OR 2 marks for a power of ten error e.g. 0.05 or 50. OR a maximum of 1 mark for '£40,000', if seen.</p> <p>No OFR.</p>
2	(b)	(i)	<p>Possible responses:</p> <ul style="list-style-type: none"> • Takes profitability into account (unlike payback) • Takes into account cash flows throughout the life of the project • Enables comparisons to be made with investments into financial products (e.g. fixed-rate bonds) 	1	<p>One mark for a valid benefit.</p> <p>DNA 'allows comparisons to be made' unless it is clear that the comparisons are between a business investment (e.g. Option 1, 2 or 3) and a financial investment (e.g. bank interest rates)</p>
2	(b)	(ii)	<p>Possible responses:</p> <ul style="list-style-type: none"> • Ignores the <u>time-value of money</u> • May be misleading during periods of inflation • Does not take into account the timing of cash flows/can make a project with a long payback period look equally as attractive as one with a short payback period 	1	<p>One mark for a valid drawback.</p> <p>Response must be a specific drawback of ARR, not of any investment appraisal tool based on forecasted information.</p> <p>Do not accept: 'just a prediction' Do not accept: 'may be incorrect'</p>

Question			Answer	Marks	Guidance
3	(a)	(i)	<p>Answer:</p> <ul style="list-style-type: none"> • Employees not turning up for work • The number of days lost by workers being away from work 	1	<p>One mark for a correct understanding of absenteeism.</p> <p>Credit responses that understand absenteeism relates to employees not always being available/present for work.</p> <p>Credit responses that define either a total or a rate.</p>
3	(a)	(ii)	<p>Possible problems:</p> <ul style="list-style-type: none"> • Lower production/productivity • Fewer sales • Projects could take longer to complete • Slower decision-making • Higher costs • Unable to keep up with demand <p>Example responses:</p> <p>Production levels could be low (1) so revenue (from the sale of caravans) could fall (1).</p> <p>Production costs may be high (1) so less profit per item (caravan) sold is made (1).</p> <p>Productivity could be low (1) because some workers are being paid not to work (1).</p> <p>Work may take longer (1) because workers are not present (REP of question).</p>	2	<p>1 mark for a valid problem. One mark for explanation.</p> <p>Explanation must explain why the issue is a problem, do not credit as explanation a statement as to why the problem might occur. See example responses.</p>

Question		Answer	Marks	Guidance
3	(b)	<p>Possible responses:</p> <ul style="list-style-type: none"> • A lack of skilled workers limits the ability to design an updated range of caravans • A lack of skilled workers limits the capacity to produce the updated caravans • A lack of skilled workers may result in less suitable workers being used • The wages paid to skilled workers may need to be increased • A lack of skilled workers delays/slows down production • Lower quality products <p>Example responses: A lack of skilled workers might mean they can't produce enough (1) so sales may be lower than forecast (1) meaning Option 2 is not as successful as planned (TV).</p> <p>The wages of skilled workers may need to be increased to attract them to work for FCC (1) so the costs of Option 2 will rise (1) so the ARR may be lower than the predicted 6% (CONT).</p>	3	<p>1 mark for a valid consequence of a lack of skilled employees. 1 mark for development/explanation. 1 mark for a contextual response linking the problem to the predictions for Option 2. See example responses for guidance on marking and annotating.</p> <p>Do not accept responses that imply that a lack of suitably skilled workers makes it impossible for Option 2 to proceed.</p>
4	(a)	<p>Possible categories:</p> <ul style="list-style-type: none"> • question mark • dog <p>Possible reasons:</p> <ul style="list-style-type: none"> • (Question mark): products have low market share in a market that has high growth • (Dog): products have low market share in a slowly growing market <p>Example response: Products are question marks (1) because they have low market share (1) in a market that is growing rapidly (1).</p>	3	<p>1 mark for either Question Mark or Dog.</p> <p>1 mark for reason due to low market share DNA 'falling market share' or 'declining sales' or equivalent.</p> <p>1 mark for reason linked to high growth market (QM) or low market growth (dog).</p> <p>If Star or Cash Cow is given as the answer and 'low market share' is given as part of the explanation, allow 1 mark for 'low market share'.</p>

Question		Answer	Marks	Guidance
4	(b)	<p>Possible reasons:</p> <ul style="list-style-type: none"> • They are currently only popular with older and more experienced caravan owners • They have an old fashioned-image • An improved corporate image might increase market share/sales/appeal to more customers • May make the business more attractive to investors/increased profits <p>Example response: Its corporate image is not good with younger and less experienced buyers (1) who make up a large part of the market (1) so by improving their image they might increase sales in this area of the market (1). They have an old fashioned image that is only popular with older customers (1) and this segment is declining (1) so if they don't improve their image they will continue to lose customers (1).</p>	3	<p>One mark for each of three explanatory points, accept development.</p> <p>Accept discussion relating to negative consequences of not improving corporate image.</p> <p>Question asks for 'why' so do not credit discussion of how corporate image might be improved.</p>
5		<p>Use level of response criteria</p> <p>Responses include:</p> <p>Impacts include:</p> <ul style="list-style-type: none"> • Lack of certainty about the predictions made • Increased business risk of making the wrong decision • Forecasts could be wrong • Harder to make an effective choice between the options • Incorrect option might be chosen • Might choose the safest option (that is least affected by changes to the external business environment) • Could cause conflict between decision-makers 	12	<p>This question assesses synoptic knowledge from Unit 1 LO6: Understand the external influences and constraints on businesses and how businesses could respond.</p> <p>Levels of response:</p> <p>Level 4 (10 – 12 marks) Candidate evaluates the impact on <i>FCC</i>'s decision-making process of uncertainty about the external business environment.</p> <p>Level 3 (7 – 9 marks) Candidate analyses the impact on <i>FCC</i>'s decision-making process of uncertainty about the external business environment.</p>

Question			Answer	Marks	Guidance
			<p>Exemplar response 1 If the external environment is worse than expected they might lose income or face higher costs (L1) so to reduce the risk of making the wrong decision they might opt for the safest option (L2) so they end up choosing the least preferable option due to a lack of information (L3). For this reason they should do all they can to reduce the extent of uncertainty (L4) by, for example, seeking the advice of external consultants who specialise in predicting future exchange rates (CONT).</p> <p>Exemplar response 2 If they don't know how exchange rates might change in the future they might be less likely to choose Option 3 (L1) because a worsening UK exchange rate could lower the amount of profit made when choosing this option (L2) so as a consequence they could choose the wrong option because they wish to choose an option less vulnerable to changes in the external economic environment (L3).</p> <p>Nb – Level 3 triggered by analysing the impact on the decision made of a point previously identified or explained.</p>		<p>Level 2 (4 – 6 marks) Candidate explains the impact on <i>FCC</i>'s decision-making process of uncertainty about the external business environment.</p> <p>Level 1 (1 – 3 marks) Candidate identifies impacts on <i>FCC</i>'s decision-making process of uncertainty about the external business environment.</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, not the choice of option.</p> <p>Benefits/drawbacks must be for <i>FCC</i> not its stakeholders. No marks for knowledge of the external business environment.</p>
6	(a)	(i)	<p>Possible benefits:</p> <ul style="list-style-type: none"> • Gives them a back-up plan/alternative • Reduces risk • Have decided in advance how to solve problems that may arise • Enables staff to know what to do if a problem arises/reduces staff anxiety • Quicker to recover from a problem/setback (saves time) • Results in less disruption to business activities if a problem occurs • No need to spend time, after the problem occurs, deciding how to respond 	2	<p>1 mark for each of two valid benefits.</p> <p>Do not accept 'results in fewer problems' (a CP reduces the impact of problems, not their occurrence).</p>

Question			Answer	Marks	Guidance
6	(a)	(ii)	<p>Possible drawbacks:</p> <ul style="list-style-type: none"> • (Labour) time taken to produce the contingency plan • Cost involved in producing the plan • Plan needs to be regularly reviewed and updated as circumstances change/new potential problems arise • Time is wasted if the event never occurs 	2	<p>1 mark for each of two valid drawbacks.</p> <p>Accept "Time consuming" for 1 mark.</p> <p>Do not accept:</p> <ul style="list-style-type: none"> • May be inaccurate • May not work
6	(b)		<p>Possible contingencies:</p> <ul style="list-style-type: none"> • Hold a stock of caravans at the destination port • Use an alternative UK port <p>Example responses: FCC could hold a stock of caravans at the destination port (1) so if they could not use their local port they could use the emergency stock instead (1). Use an alternative UK port (1) so if the weather is too bad at one they can divert to the other (1).</p>	2	<p>1 mark for a valid contingency.</p> <p>1 marks for explanation.</p> <p>Do not accept use of unrealistic alternative transport e.g. planes, trains,.</p>

Question		Answer				Marks	Guidance
7			Option 1 – marketing campaign	Option 2 – Update the product range	Option 3 – Export to Eastern Europe	16	<p>This question assesses synoptic knowledge from Unit 1 LO7: Understand why businesses plan</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 FCC should take, based on analysis.</p> <p>Level 3 (9 – 12 marks) Candidate analyses one or more options under consideration at FCC.</p> <p>Level 2 (5 – 8 marks) Candidate explains issue(s) relating to one or more options under consideration at FCC.</p> <p>Level 1 (1 – 4 marks) Candidate identifies issue(s) relating to one or more options under consideration at FCC.</p> <p>L4 evaluation: Award 13 marks for suggesting the most beneficial option for FCC 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	£600,000	£1,200,000	£800,000			
	Payback	3 years 3 months	4 years 1 month	4 years			
	ARR	4.67%	6%	5%(or Own Calculation for Q2a)			
	Capital cost financed by:	£600,000 cash reserves	£600,000 cash reserves. £600,000 equity injection for a 20% stake	£600,000 cash reserves. £200,000 equity injection for a 15% stake			
	Revenue expenditure p.a.	£50 000	£120,000	£80,000			
	Ansoff	Market penetration/ low risk	Product development/ moderate risk	Market development/ moderate risk			

Question	Answer	Marks	Guidance
	<p>Example response</p> <p>Option 1 is the cheapest option (L1). It also has the lowest Average Annual Return (L1). This means that it is expected to make the smallest return on investment of the three projects (L2). It is also an example of market penetration (L1) because it involves trying to sell more of the same product into the existing market (L2). Options 2 and 3 are both more expensive and carry greater risk. This means that if Option 1 is chosen there is less chance of business failure due to the investment not working out (L3).</p> <p>Option 1 also does not require any equity investment (L1) meaning that the shareholders do not need to give control away to the business angel (L2). Having fewer shareholders makes it less likely that there will be disagreements amongst the shareholders making it easier for the business to take major strategic decisions in future (L3).</p> <p>Overall Option 1 looks to be the safest option using Ansoff's Matrix so I recommend it (L4). Since the aim is to achieve growth that will enable the business to secure more finance in the future this is the best option because it will help to achieve the short-term growth the business wants (CONT).</p>		

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