

CAMBRIDGE TECHNICALS LEVEL 3 (2016)

Examiners' report

BUSINESS

05834–05837, 05878

Unit 3 January 2023 series

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Introduction

Our examiners' reports are produced to offer constructive feedback on candidates' performance in the examinations. They provide useful guidance for future candidates.

The reports will include a general commentary on candidates' performance, identify technical aspects examined in the questions and highlight good performance and where performance could be improved. The reports will also explain aspects which caused difficulty and why the difficulties arose, whether through a lack of knowledge, poor examination technique, or any other identifiable and explainable reason.

Where overall performance on a question/question part was considered good, with no particular areas to highlight, these questions have not been included in the report.

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Unit 3 series overview

This unit is a mandatory paper for the Foundation Diploma, Diploma and Extended Diploma. It may also be taken by students entered for the Certificate and Extended Certificate.

Two questions on this paper are high-tariff extended-response questions worth 12 and 16 marks respectively. Candidates need to demonstrate the skills of analysis (Level 3) and evaluation (Level 4) to gain the highest marks. An analytical response must contain implications for the business, for example for Question 7 the impact on business performance, reflecting the nature of the organisation and its main objectives. For Question 5, responses should consider the impact on the decision-making process itself. In addition to analysis an evaluative response must contain a reasoned judgement. Candidates should be encouraged to reach decisions and give detailed justification to support their argument using contextual information. While an accurate judgement that applies to most businesses would achieve a low Level 4 mark, a response which argues using the particular circumstances of the business in the pre-release scenario will be rewarded more highly.

The number of candidates sitting the exam was higher than in some recent sessions. The following comments reflect the responses given by the candidates who sat the exam.

Candidates who did well on this paper generally did the following:	Candidates who did less well on this paper generally did the following:
<ul style="list-style-type: none"> • demonstrated good understanding of investment appraisal techniques used in the Case Study (e.g., Payback, Average Rate of Return) • demonstrated a good understanding of the business impact of business decisions and internal/external influences. For example, the impact on the ability of the organisation (OTVC) to meet the aims of the two partners by pursuing each of the three options • in answering Question 5, focused on the impact to the organisation (OTVC) of keeping the local newspaper informed during the decision-making process. 	<ul style="list-style-type: none"> • demonstrated a lack of understanding of concepts used in the Case Study, e.g., by confusing revenue expenditure with revenue, confusing payback period with investment rate of return • demonstrated a lack of understanding of the business context in the case study (e.g., that OTVC is a partnership with two partners with different objectives for the business, and that the partnership is currently losing out to other competitors in the area) • used vague and ambiguous language in responses and so did not demonstrate clear understanding of concepts and the linkage between them. For example, 'production slows down and their ability to deal with customers is affected and money is lost' • did not update their understanding of the Case Study in the light of the new information introduced in the question paper (e.g., the Payback Period for Option 2).

Question 1 (a)

1 (a) Managing Olive Tree Veterinary Clinic (OTVC) involves taking many business decisions. Some of these decisions are operational.

Identify with a tick (✓) the **two** operational decisions in the table below.

You should only tick **two** boxes.

Business Decision:	Tick (✓)
Deciding the staffing rota for the veterinary assistants	
Deciding when to service the clinic's equipment	
Deciding whether to introduce a new partner into the business	
Deciding whether to relocate to new premises	

[2]

Most candidates recognised that operational decisions affect short-term, specific aspects of running the business. Less successful responses selected the two strategic decisions – possibly as a result of not knowing the meaning of 'operational'.

Question 1 (b) (i)

(b) (i) Heidi has used an external consultant to help her develop three options for the future of OTVC.

State **one** drawback to OTVC of using an external consultant.

.....

..... [1]

Most responses correctly identified possible drawbacks such as the cost of hiring a consultant or their lack of detailed knowledge of the business and/or its context.

Question 1 (b) (ii)

- (ii) The external consultant has conducted some research into customer opinions about OTVC. She has collected both qualitative and quantitative information.

Identify with a tick (✓) the **two** items of qualitative information in the table below.

You should only tick **two** boxes.

Information:	Tick (✓)
A recording of an interview with a new customer	
A review of OTVC posted online by a recent customer	
The average score given by OTVC's customers on a ratings website	
The number of customers who visited OTVC in 2022	

[2]

Most candidates correctly identified the two qualitative items of data. Weaker responses selected the two quantitative items – possibly due to not knowing the meaning of them, or maybe confusing the two terms.

Question 1 (c)

- (c) The key personnel involved in choosing one of the three options are Amir and Heidi. Neither Amir nor Heidi have experience of managing an organisation through change.

Explain **one** drawback to OTVC of the partners' lack of experience of managing a business through change.

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..... [3]

Most responses identified a problem such as the potential to make an incorrect/unwise decision, but relatively few then developed this with a specific and consequential impact on the business. Less successful responses asserted that profit would be affected but without offering an explanation as to why or how.

Question 2 (a) (i)

2 (a) The table below shows financial estimates for **Option 2: Introduce equine care**.

Year	Net cash flow
0	-£80 000
1	£20 000
2	£25 000
3	£25 000
4	£25 000
5	£30 000

(i) Using the information in the table above, calculate the payback period for **Option 2: Introduce equine care**.

Show your workings

Payback period _____

[2]

Despite the payback information for Option 2 being missing from the pre-release case study, many candidates lacked the knowledge of how to calculate payback correctly. There were relatively few correct responses given although a few candidates made a reasonable, if inaccurate, attempt.

Question 2 (a) (ii)

- (ii) State **one** disadvantage to OTVC of using the payback period as a method of investment appraisal.

.....
..... [1]

There were relatively few good responses to this question. Most were responses that could apply to any information based on forecasted information and so were judged too vague. Most correct responses recognised either that the time-value of money is not taken into account, or that the metric ignores cash-flows which occur after payback is reached.

Question 2 (b)

- (b) Heidi is worried that OTVC might face a skills mismatch if **Option 2: Introduce equine care** is chosen.

Using a relevant example, explain how a skills audit could prevent OTVC from having a skills mismatch.

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..... [3]

There were relatively few good responses to this question. This was usually because there was a confusion between the role of a skills audit in identifying a skills mismatch between existing staff and current/future business needs, and a person specification when recruitment is used to close a skills gap.

Question 3 (a)

3 (a) If **Option 3: Introduce care for exotic pets** is chosen, OTVC would need to employ a new full-time vet. The vet would be paid a salary.

Explain the impact on OTVC's break-even level of output of employing a new full-time vet.

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..... **[3]**

Most responses recognised that break-even would be increased. Successful responses explained how fixed costs would rise due to the new salary being paid. Less successful responses tended to have a lack of understanding of break-even analysis and these responses often instead explained how the business would be able to treat more animals.

Assessment for learning



Students would benefit from greater understanding of how the break-even level of output is affected by changes in costs and prices. Students should be taught that, although in reality changes in price will affect the level of demand, as far as break-even analysis is concerned changes in price feed directly into changes in revenue (and that this is therefore one of its limitations as a decision-making tool).

Question 3 (b)

- (b) If **Option 3: Introduce care for exotic pets** is chosen the number of vets will increase from two to three. The external consultant estimates that the number of customers seen in a year will increase from 1580 to 1950.

Calculate the reduction in productivity of OTVC's vets, if **Option 3** is chosen.

Show your workings

Reduction in productivity _____ customers per vet

[3]

Relatively few candidates achieved full marks for this question. Some demonstrated an ability to calculate productivity for either two or three vets but then did not correctly calculate the resulting change.

Question 4 (a)

4 (a) If **Option 2: Introduce equine care** is chosen, the external consultant has told Heidi that 'place' would be an important marketing consideration.

Explain **one** reason why 'place' would be an important marketing consideration for OTVC if **Option 2** is chosen.

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..... [3]

Most responses demonstrated an understanding of place and so gained at least 1 mark. Some responses were then able either to set this in the context of care for horses or to explain how the choice of location impacts on customers. Relatively few responses did both.

Question 4 (b)

(b) The external consultant is aware that if **Option 2: Introduce equine care** is chosen OTVC might gain a number of major customers. These customers could have high bargaining power.

Explain how the high bargaining power of customers might affect OTVC.

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..... [3]

This question tested the ability of candidates to apply their understanding of Porter's Five Forces Model. Relatively few responses showed a good understanding of this. Many responses demonstrated limited understanding of 'bargaining power' but did at least recognise that prices may be lower as a result.

Question 5

5 Heidi would like to keep the local newspaper informed during OTVC’s decision-making process.

Evaluate the benefits and drawbacks to OTVC of keeping the local newspaper informed during the decision-making process.

[12]

Nearly all responses could identify at least one benefit to OTVC of keeping the local newspaper informed during the decision-making process and so achieve a mark in Band 1 (1-3 marks). Good responses then developed this by explaining how this would benefit OTVC’s decision-making and so achieve a mark in Band 2 (4-6 marks). Better responses then analysed how this could have an impact on STC’s decision-making and so achieve a mark in Band 3 (7-9 marks). For example, local residents could give feedback via letters page or website comments, giving OTVC more detailed information that could help it to make a better choice between the three options. Less successful responses often confused communicating with the newspaper during the decision-making stage with buying advertising space to help promote the chosen option once it is selected. Such responses tended to remain in Band 1 as they lacked a focus on the issues relevant to the question.

Question 6 (a) (i)

6 (a) The external consultant has prepared a Gantt chart to assist with the possible implementation of **Option 1: Relocate to new premises.**

Activity:	Week:									
	1	2	3	4	5	6	7	8	9	
Complete purchase and gain access to the building										
Renovate reception area										
Renovate Clinic 1										
Open Clinic 1										
Renovate Clinic 2										
Open Clinic 2										

Refer to the Gantt chart.

(i) How many fewer weeks is the renovation of Clinic 2 expected to take in comparison with the renovation of Clinic 1?

..... [1]

Most responses were correct but there were a relatively high number of incorrect responses.

Question 6 (a) (ii)

(ii) Clinic 1 cannot open before the renovation of the reception area is complete.

By how many weeks could the renovation of the reception area be delayed without delaying the opening of Clinic 1?

..... [1]

Most responses were correct but there were a relatively high number of incorrect responses.

Question 6 (a) (iii)

(iii) How long would the entire project be expected to take if the renovation of Clinic 2 is delayed by two weeks?

..... [1]

Most responses were correct but there were a relatively high number of incorrect responses.

Question 6 (b)

(b) Explain **one** benefit to OTVC of using critical path analysis to help plan the implementation of **Option 1: Relocate to new premises**.

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..... [3]

Most responses had some knowledge of critical path analysis but relatively few were able to explain how it might impact on the planning of Option 1. Good responses recognised that it could help either to make sure resources were prioritised on the critical activities or to keep customers informed as to the most likely opening date for the new location.

Question 7

7 Recommend which option OTVC should take.

Justify your answer.

[16]

This high tariff question is based heavily on the information contained in the case study about the three options together with the information in Appendix 1 and 2.

Candidates who achieved a mark in Band 1 (1-4 marks) did so because they used the information in the case study to draw valid conclusions that would be helpful when making the business decision. For example: that Option 3 had the shortest payback period or that Option 1 is likely to attract more car-users than the current location. Responses which merely repeated information from the case study gained no marks.

Candidates who achieved a mark in Band 2 (5-8 marks) did so because they explained the significance or usefulness of the information identified previously. For example if Option 1 is more attractive to car users than the present location then OTVC may well see an increase in the number of customers. However, responses demonstrating no understanding were not credited, for example, a statement that Option 3 would achieve the highest profit because its ARR is highest was judged too vague because it potentially confuses total profit with profit as a percentage of investment – especially since, in this case, the capital investment is relatively small. Equally, responses stayed in Level 1 if the attempted development was incorrect, for example confusing revenue expenditure with revenue or confusing ARR and payback.

Candidates who achieved a mark in Band 3 (9-12 marks) did so because they linked the impact of the option under discussion to OTVC's business performance (thereby recognising the strategic impact of choosing the option). For example, if Option 1 results in more customers due to more car-parking capacity then OTVC should see an increase in sales revenue (and therefore profits if costs do not rise more than proportionately).

Candidates who achieved a mark in Band 4 (13-16 marks) did so because, having achieved Band 3 (analysis) they could offer a reasoned conclusion (i.e. they gave valid reasons for their choice of which option the business should choose). The reasons, to be valid, would need to be based on the information in the case study. To achieve a mark above 13 the justification would need to be in context and to achieve a mark above 14 the justifications would need to have greater detail.

Misconception



Some candidates confused the Average Rate of Return (ARR) with the payback period – for example by incorrectly stating that having the lowest ARR means that the investment will be paid back the quickest.

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