

Cambridge **TECHNICALS LEVEL 3**

BUSINESS



Combined feedback on the January 2017
Exam Paper
(Including selected exemplar candidate
answers and commentary)

Unit 3 - Business decisions
Version 2

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INTRODUCTION

The question paper, mark scheme and the pre-release research brief are available from Interchange.

OCR
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Level 3 Cambridge Technical in Business
05834/05835/05836/05837/05878

Unit 3: Business decisions

Monday 16 January 2017 – Morning
Time allowed: 1 hour 30 minutes

You must have:
• a clean copy of the pre-release (prent GAZ)

You may use:
• a calculator

First Name Last Name
Centre Number Candidate Number
Date of Birth

INSTRUCTIONS

- Use black ink.
- Complete the boxes above with your name, centre number, candidate number and date of birth.
- Answer all the questions.
- Write your answer to each question in the space provided. If additional space is required, you should use the lined page(s) at the end of this booklet. The question number(s) must be clearly shown.

FOR EXAMINER USE ONLY

Question No.	Mark
1	5
2	17
3	17
4	5
5	12
6	5
7	18
Total	80

INFORMATION

- The total mark for this paper is 80.
- The marks for each question are shown in brackets [].
- This document consists of 12 pages.

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Cambridge Technicals
Business

Unit 3: Business Decisions
Level 3 Cambridge Technical Certificate/Diploma in Business
05834 - 05878

Mark Scheme for January 2017

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PRE RELEASE MATERIAL

The question paper is based on a pre-release research brief which is issued to centres 6-8 weeks before the examination.

The pre-release brief can be found on Interchange.

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Level 3 Cambridge Technical in Business
05834/05835/05836/05837/05878

Unit 3: Business decisions

INSERT

Monday 16 January 2017 – Morning

INSTRUCTIONS FOR LEARNERS

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INSERT***IceCrazy*****The business**

IceCrazy is a manufacturer of ice cream. Two good friends, Sameer Patel and Janice Williams, set up the business as a partnership in 1999.

The business was initially very small, employing just two staff in addition to Sameer and Janice. Since then the business has grown and the factory now employs 25 permanent staff and up to 10 seasonal staff. The factory is situated on a small industrial estate seven miles from the south coast of England.

The business specialises in supplying high quality, luxury ice cream to a selection of expensive restaurants. In 2016 *IceCrazy* produced 800 000 litres of ice cream and supplied over 500 restaurant customers in the south-east of England.

Sameer's background is in marketing and he takes charge of the marketing and sales functions. He has proved to be especially good at obtaining new clients and retaining their custom. Sameer also oversees the finance and administration functions. Three permanent office employees assist him in his various responsibilities.

Janice is the production expert. She devises the recipes and oversees all production. In addition she manages the workforce. Janice would say that her style of management is 'democratic.' She likes to involve staff in decision making. Sameer has criticised her for being 'too soft' when disciplinary situations have arisen. Many of the permanent staff seem to have a lot of unauthorised days off, and seasonal staff rarely seem to stay the whole season. This has meant that Janice constantly needs to recruit, which she does through the local job centre.

In 2012 *IceCrazy* opened its own ice cream café in the centre of the town. This small café has six tables. It serves lots of delicious sundaes and ice cream combinations using *IceCrazy's* own ice cream flavours. The ice cream café is managed by Tom, the only full-time member of staff. He is assisted by six part-time staff. Three of these are seasonal employees, employed only in the summer months, who are generally students.

The seasonal nature of the ice cream business means that sales in the café are higher in the summer months. In July and August huge numbers of tourists flock to this popular seaside town. The town is also a very popular venue for hen and stag parties. Large numbers of young people visit the town. It is not unusual for a queue to develop in the ice cream café. Sometimes customers have to be turned away because all of the tables are full and no takeaway options are available. Out of season the town is still busy with visitors, particularly at weekends. In the winter season, between October and the end of April, the café has reduced opening times and is closed on Tuesdays and Wednesdays (apart from the two weeks of the school Easter holidays when it is open seven days a week). During the winter season Tom and three part-time members of staff operate the café, engaging a number of students to help out in the Easter holidays.

IceCrazy has a website, which Sameer keeps up-to-date. It is used to promote new ice cream *IceCrazy* has a website, which Sameer keeps up-to-date. It is used to promote new ice cream flavours to the general public, obtain customer feedback and advertise special offers available at the ice cream café. Sameer has also signed up to a number of social media websites but has not yet made much use of these.

IceCrazy have £35 000 in the bank from retained profits.

The challenge

Despite the recession *IceCrazy* has seen a year on year growth in its profits. However, its annual accounts for the last two years display a worrying trend. Growth is slowing down and in April 2016, the business achieved only a 1% increase in net profit on the previous year.

Sameer and Janice are worried that if changes are not made, profits may fall, putting jobs at risk in the factory and ice cream café.

The Options

Option 1 – Open a bigger café

Move the ice cream café to larger premises. The lease on the current property is due to expire at the end of 2016. Sameer and Janice paid £12 000 for the lease 5 years ago and pay a rent of £9000 per year.

Sameer has investigated bigger premises available for rent in the town centre and has found one not far from the current location. These premises were previously used as a café but considerable modernisation would be needed. There is space for 15 tables. The property has large sliding windows that open onto the busy street. This would allow a take-away kiosk to be opened in the summer months.

The capital budget spend is estimated to be £55 000; £5000 to fit out the new premises and £50 000 to buy the lease. The lease has 10 years to run. Additional revenue expenditure would include £25 000 a year for the rent. Wages for additional staff would also be required.

Capital investment appraisal suggests a payback period of 3 years 8 months, with an ARR of 27% over the first five years of trading.

Option 2 – Offer a range of healthier products

IceCrazy could expand the range of products that it offers. In particular, the business could offer a range of healthier products, such as fresh fruit sorbets and diabetic ice-cream.

This option, Sameer believes, would allow him to expand the product range supplied to restaurants. He believes that, in addition to the current luxury choice of flavours, this new range would help to increase the number of restaurant customers to over 1000 within 5 years. Sameer thinks that this extended product range will be the deciding factor in the decision of many restaurant managers to switch to *IceCrazy*. In addition, the business will have several new markets to expand into including the diabetic market, the weight loss market and the healthy eating market.

The capital budget spend to introduce the new range is estimated at £3000 for new equipment and £4000 for a marketing campaign.

Capital investment appraisal suggests a payback period of 2 years and 3 months with an ARR of 51% over the first five years of trading.

Option 3 – Open a soft play facility with on-site ice cream café

The industrial unit next to the factory is empty and *IceCrazy* could rent these premises, opening a children's soft play adventure zone with a difference. The difference would be the on-site ice cream café, catering for all the family.

Having conducted considerable research into the increasing popularity of soft play facilities, Janice is particularly keen to pursue this option.

Janice believes that she would be able to run the facility assisted by current staff that are employed at the factory. Part-time staff, such as college students, will only need to be hired during busy periods. However, factory employees are concerned about what their new job roles would be and the pressure of an increased workload.

The capital budget spend is estimated to be £80 000 to purchase and fit the soft play equipment, kitchen and café area. Additional funds will also need to be found for planning permission for change of usage for the building. All employees working in the facility must have Disclosure and Barring Services checks (a check on their criminal record). Some employees will need to be provided with first aid training. Janice estimates this will cost £5000.

Janice has been able to negotiate a very competitive rent for the neighbouring industrial unit of £2500 per month because the property has been empty for some time.

Capital investment appraisal suggests a payback period of 5 years and 2 months with an ARR of 19% over the first five years of trading.

Appendix 1

Changing tastes in the ice cream industry

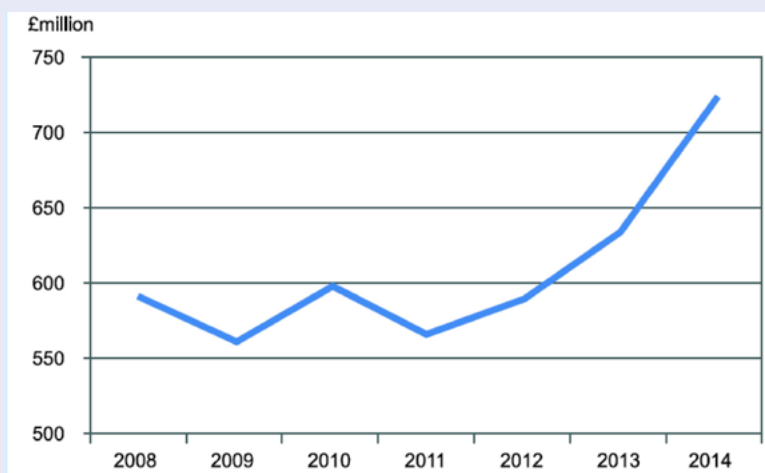
Though classic vanilla, chocolate and strawberry remain the world's most popular ice cream flavours, increasingly health-conscious consumers are moving away from the large tubs of the past to smaller treats. They are turning to niche or upmarket brands with unusual or healthier ingredients.

"People either want unprocessed ice cream with latent, functional health benefits, or people are of the mindset 'if I'm going to have some ice cream, it's got to be the good stuff,'" said a global food and drink analyst at Mintel.

The big ice cream producers have responded with a variety of strategies, including selling off some bulk ice cream businesses, buying start-up brands, introducing new products and pushing into new markets.

Appendix 2

UK manufacturers' ice cream sales 2008 to 2014



Question 1

Answer **all** questions

1 IceCrazy has many stakeholders.

(a) Identify **two** internal stakeholder groups of IceCrazy.1 ... *owners (Sameer / Janice) – one mark maximum for identifying either or both owners*.....2 ... *workers / employees job titles / café manager / Tom (1 mark maximum for an item from ... this group, mark rest as REP)*.....

or

... *trade unions*.....

[2]

(b) Explain **one** reason why it is important for businesses to communicate with their internal stakeholders **before** taking major decisions.... *This communication may allay fears (1 mark) that the workforce has about the business being ...*... *in difficulty and not being able to pay their wages (1 mark). If this is not addressed before* *changes start to be made staff may decide to leave the business (1 mark).*

[3]

Other responses include

- *To motivate staff*
- *To gain useful ideas / opinions*

2 Sameer is worried about IceCrazy's recent financial results. He wishes to use break-even analysis to investigate further. Data for 2017 is expected to be as follows:

- Average selling price of £10.00 per litre of ice cream
- Variable costs of £8.00 per litre of ice cream
- Fixed costs of £1 500 000 per annum.

(a) State what is meant by the term 'break-even'.

... *Revenue equal to total costs*

[1]

Other responses include

- *Neither a profit nor loss*
- *Output at which start to make a profit.*

Mark scheme guidance

1a) One mark for each correct identification to a maximum of two identifications.

This question assesses synoptic content from Unit 1 LO5 Stakeholders.

1b) One mark for a correct identification up to a further two marks for an explanation.

For full marks must address the factor of '**before** taking major decisions'.

2a) One mark for a correct identification.

This question assesses synoptic content from Unit 1 LO4 Financial information.

Question 2

(b) Calculate the level of output that *IceCrazy* needs to achieve to break-even.

Show your workings

Break-even level of output = litres

[2]

Indicative content:

$$\text{Break-even} = \frac{FC}{\text{Price} - VC} \quad \text{or} \quad \frac{FC}{\text{Contribution per unit}}$$

$$\frac{£1500000}{£10.00 - 8.00} = \frac{1500000}{2} = 750000 \text{ litres}$$

Award full marks for the correct answer: 750000

E.g. 750000 (2 marks)

E.g. $\frac{£1500000}{£10.00 - 8.00}$ (1 mark)

E.g. Break-even = $\frac{FC}{\text{Price} - VC}$ (1 mark)

(c) Sameer predicts that sales in 2017 will be 800 000 litres.

Calculate *IceCrazy's* margin of safety for 2017.

Show your workings

Margin of safety = litres

[2]

Indicative content:

Margin of safety = actual sales – break-even sales level

800000 – 750000 (OFR)

Award full marks for the correct answer: 50000.

(d) Explain **one** way *IceCrazy* could lower its break-even level of output.

... Sameer could negotiate cheaper prices for the raw materials (1 mark) this will reduce total

... costs (1 mark)

[2]

Other responses include

- reduce (fixed / variable / total) costs
- increase selling price.

Mark scheme guidance

- 2b) Up to two marks.
No workings required.
Award full (2) marks for 750000.
- Workings should only be marked if the final answer is incorrect. In which case award maximum one mark for the correct formula, if seen, whether in words or numbers.
- 2c) Up to two marks.
No workings required.
Award full (2) marks for 50,000
OFR applies to break-even sales level from 2b: annotate using OFR with ticks to indicate marks awarded.
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.
- 2d) One mark for a correct identification plus a further one mark for an explanation.

Question 3

- 3 On average *IceCrazy* employs 25 permanent staff. Ten people left the business in 2016.

(a) Calculate *IceCrazy*'s rate of labour turnover for permanent staff for 2016.

Show your workings

Rate of labour turnover =

[2]

Indicative content:

$$\text{Rate of labour turnover} = \frac{\text{Number of employees leaving}}{\text{Average number of employees}}$$

$$\frac{10}{25} \times 100 = 40\%$$

Award full marks for the correct answer: 40%

E.g. 40 (2 marks)

E.g. $\frac{\text{Number of employees leaving}}{\text{Average number of employees}}$ (1 mark)

E.g. $\frac{10}{25}$ (1 mark)

- (b) Explain why Janice should be concerned about the level of labour turnover at *IceCrazy*.

... *Turnover is very high (1 mark) suggesting that there are problems within the*
 ... *workforce (1 mark)*

[2]

Responses include

- *Turnover is comparatively high*
- *Lack of continuity for the business*
- *High cost of recruitment*
- *Increased training costs.*

- (c) Explain **one** possible cause of the high level of labour turnover at *IceCrazy*.

... *IceCrazy employs a lot of seasonal workers (1 mark) and may therefore only pay minimum*
 ... *wage (1 mark). If other employers are offering higher wages this will lead to staff*
 ... *leaving (1 mark)*

[3]

Responses include

- *Low level of wages paid*
- *Poor morale*
- *Other available employment*
- *Non-flexible working*
- *Poor management*
- *Staff are bored*
- *Staff are not motivated.*

Mark scheme guidance

- 3a) Up to two marks.
No workings required.
Award full (2) marks for 40.
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.
- 3b) **Contains 1 embedded mark from Unit 1.**
One mark for a correct identification plus a further one mark for an explanation.
- 3c) One mark for a correct identification plus up to two further marks for explanation.

Question 4

- 4 Sameer decides to use the Ansoff's Matrix shown in Fig. 1 to help him evaluate **Option 1 – Open a bigger café.**

		Products	
		Existing	New
Markets	Existing	Market Penetration	New Product Development
	New	Market Development	Diversification

- (a) Circle the quadrant in Fig.1 that best fits **Option 1 – Open a bigger café.**

[1]

- (b) Explain why using Ansoff's Matrix is of benefit to IceCrazy when considering **Option 1 – Open a bigger café.**

... *By splitting business strategies into these four categories (Level 1) The Ansoff matrix will
 ... help Sameer and Janice to assess the level of risk (Level 1) associated with opening up a larger
 ... ice cream café (Level 2). The Ansoff matrix helps establish that this option represents market
 ... penetration (Level 2) because a bigger café is still selling the same product to the same market, ...
 ... which is the least risky of the four categories (Level 2).*

[4]

Responses include

- *Helps analyse the overall position of the business*
- *By dividing into four categories forces management to consider a range of options, not just focus on one*
- *Helps assess the level of risk.*

Mark scheme guidance

- 4a) For one mark.
Mark as incorrect if more than one item is circled.

- 4b) **Levels of response**

Level 2 (3 – 4 marks)

Candidate explains the benefit(s) to IceCrazy of using Ansoff's Matrix.

Level 1 (1 – 2 marks)

Candidate explains benefit(s) of Ansoff's Matrix with no use of context.

Question 5

- 5 If *IceCrazy* decides to go ahead with **Option 2 – Offer a range of healthier products**, Sameer will need to consider carefully how to market these new products.

Evaluate factors that *IceCrazy* needs to consider when launching its new product range into a very competitive market.

... *The first thing that Sameer will need to understand is the target market (Level 1) for the new products. This is because these low fat “healthier” products will appeal to different groups of people (Level 2) to their existing luxury ice cream. This means that different strategies will need to be used to ensure that the new range penetrates this market and ultimately has demand and sells well (Level 3)*

... *The new product range represents diversification for the company (Level 1) and should be seen by the company as part of a strategy to achieve competitive advantage (Level 2). To ensure that the products are well received Sameer will need to identify and promote the key features of the product (Level 1), which are low fat, low sugar therefore low calorie (Level 2). This will establish brand identity, which is particularly important in this very competitive market (Level 3).*

... *Good promotion is a very important factor (Level 1) and part of this, when launching a new product is pricing strategies (Level 1). Sameer could consider low introductory prices to encourage restaurant managers to try the new products in their restaurants (Level 2). A key factor for Sameer is getting the product into the restaurants and if he achieves this and the good quality/good taste of the product is recognised by customers, then the likelihood of re-ordering even if prices go up, are high (Level 3).*

... *Finally, the method of promotion is very important (Level 1). IceCrazy already has a website and uses social media (Level 2) and these should be extensively used for the new products. Further advertising must also be considered, such as e-mail campaign, leaflet drop to restaurants (Level 2) but Sameer does need to be aware of the cost of this and stay within his budget (Level 3)*.....

... *All these factors are very important and I think that promotion is the most significant because it informs potential new customers about the product. However, he must properly consider who his target audience is to promote to the right people; focus on the key features of the product in this promotion and make the price attractive, to ensure the success of the venture (Level 4).*

[12]

Responses include

- Selection of target market
- Extent to which market is growing
- Establishing USP/features of product
- Appropriate pricing strategies
- Promotion
- Very tight budget.

Mark scheme guidance

NB: This question includes one embedded marks for applying knowledge from Unit 1 LO2 Functional areas.

Levels of response

Level 4 (10 – 12 marks)

Candidate evaluates the factors that *IceCrazy* will need to consider when launching the new product range

Level 3 (7 – 9 marks)

Candidate analyses factor(s) that *IceCrazy* will need to consider when launching the new product range

Level 2 (4 – 6 marks)

Candidate explains factor(s) that IceCrazy will need to consider when launching the new product range.

Level 1 (1 – 3 marks)

Candidate identifies relevant factor(s) to consider when launching a new product.

Exemplar candidate work

Question 5 – low level answer

- 5 If IceCrazy decides to go ahead with **Option 2 – Offer a range of healthier products**, Sameer will need to consider carefully how to market these new products.

Evaluate factors that IceCrazy needs to consider when launching its new product range into a very competitive market.

[12]

IceCrazy is an ice cream business who is worried for its trend that show a slowing down in growth and profit. They decide to ~~go~~ go ahead with Option 2 - Offer a range of healthier products, this option would allow the business to expand the product range supplied to restaurant, ~~as this~~ They can duplicate ~~increase~~ the number of restaurant customers from 500 to 1000 within 5 years. In addition within option 2 ~~they~~ the business will have several new markets to expand such as the weigh loss market, the ~~healthy~~ healthy eating market and the diabetic market, this could expand the range of product and gain the decision from new restaurants managers to switch to IceCrazy.

IceCrazy should consider different factors such as the ARR that is 51% so they will have the entire payback after 2 years and 3 month ~~&~~ that means is low risky and they can ~~as this~~ ~~money~~ finance this ~~option~~ option with the retained profits they have. ~~They~~ ~~the~~ Sameer should consider different factors such as the competitors they will make with the new product development in this new market they will enter.

Commentary

This question requires candidates to consider which factor is the most important for IceCrazy to consider when launching their new product range into a very competitive market.

The first 16 lines of this answer retell Option 2 of the case study. This scores no marks because it does not answer the question set. Candidates need to resist the urge of describing the options since they are simply repeating in their own words what the scenario told them. It can also waste valuable time and result in difficulty completing the paper.

The second paragraph begins with an investment appraisal argument. This may be a valid argument for whether to choose the option, but again this is not the question set. The question asks candidates to say what factors are important if Option 2 is chosen.

Thankfully, three lines from the end of the response the candidate does mention a factor which needs considering during the product launch – ‘competitors’. This is an identification of a factor, but with no explanation, so is awarded at Level 1.

The response is awarded a low Level 1 mark.

To improve on this response the candidate needs to suggest more factors that need to be considered when launching a product e.g. target market, USP, branding, promotion, pricing etc. In addition, to move to Level 2 the answer needs to explain why the factor is important. In the case of ‘competitors’ reference could have been made to undercutting competitor prices or developing a promotional campaign that emphasises features of IceCrazy’s products which the competitors cannot match.

Question 5 – medium level answer

- 5 If IceCrazy decides to go ahead with **Option 2 – Offer a range of healthier products**, Sameer will need to consider carefully how to market these new products.

Evaluate factors that IceCrazy needs to consider when launching its new product range into a very competitive market.

[12]

L1 One factor which would need to be considered may be advertisement. This means they can broadcast their new options which could gain more customers and attract a new different customer.

Second factor would be when looking at healthy eating and whether they could be a monopoly in their markets. The impact on the business could be then gaining the most sales and increasing their target market.

L1 Thirdly with weight loss market they have a niche and there is a niche in the market. This is because of competition and how many fat-free foods have been developed.

L1 Fourthly they have to look at how healthy their local area is. This is because with the idea of opening a new store they can evaluate how many to go to and whether the local people would buy from them.

Overall I believe they need to put their products in a position where they are still wanted. This means even if they lose their office location because wanted by the local area they still have a large amount of products they want to put in a business they don't lose a large amount of money long term effect they can keep sales high and stop the company from taking a loss.

5

Commentary

This question is level of response marked.

In paragraph 1 the candidate suggests that advertising is a factor (Level 1). The benefit of advertising i.e. to gain more customers is explained (Level 2).

Paragraph 2 is incorrect as it considers the business to be a monopoly.

Paragraph 3 suggests another factor 'niche market' but gives no further explanation (Level 1).

The final paragraph suggests the health of their local area is a factor (Level 1) and explains the link to getting local people to buy from them (Level 2).

The response was awarded a mid-Level 2 mark.

In order to move to Level 3 the response needs to analyse some of the factors it considers. For example, in the first paragraph regarding advertising which leads to more customers, the candidate could have considered the beneficial effects of word of mouth, or using social media, to increase customer awareness. Alternatively they could have balanced the increased costs of advertising against any additional revenue it creates.

Question 5 – high level answer

- 5 If IceCrazy decides to go ahead with **Option 2 – Offer a range of healthier products**, Sameer will need to consider carefully how to market these new products.

Evaluate factors that IceCrazy needs to consider when launching its new product range into a very competitive market.

[12]

Sameer needs to think carefully what the special or unique features^(L1) of the new products are. He can then emphasise these special features on any advertising^(L2) the business uses. This should increase the effectiveness of the advertising and lead to greater revenue^(L3).

Sameer also needs to consider what price^(L1) to charge for his products. Because he is trying to cater to a discerning niche market he should consider setting a relatively high price^(L2). Such a price will not only increase profit but also may give an impression of product quality which increases sales^(L3).

Of these 2 factors, I think that the quality of IceCrazy's advertising is the most important. Since whatever price the business charges, if potential customers are not aware that the product exists or that it meets their needs, they will not buy the product^(L4). As this is a product diversification for the business Sameer needs first and foremost to get customers to taste the product. If the product is good enough they will become loyal customers of the brand and at that point the business can increase its prices^(L4).

Commentary

This is a good answer. It begins by identifying an appropriate factor i.e. the special features of the product (Level 1). It explains the importance of the special features i.e. use for advertising purposes (Level 2). It analyses the consequence of this i.e. advertising more effective and therefore more revenue (Level 3). If this answer had stopped at the end of paragraph 1 it would have been awarded a Level 3 mark of 7.

The second paragraph identifies another factor i.e. price (Level 1). It explains the importance to the business of setting a high price (Level 2). It analyses the benefits of setting a high price i.e. higher profit margin and, counter-intuitively, possibly increased sales of the product (Level 3).

The final paragraph makes a justified judgement as to which of the two factors are most important. In sentences 1 and 2 of this final paragraph the candidate supplies a judgement as to why 'advertising' is the most important. The argument would be considered as generic because it applies to almost all businesses and, if the answer had stopped here, it would be awarded a Level 4 mark of 10. The final two sentences add some specific contextual detail to the argument i.e. it is 'diversification' for the business and the need to 'taste' the product. The answer deserves a full 12 marks.

Question 6

- 1 If IceCrazy goes ahead with **Option 3 – Open a soft play facility with on-site ice cream café**, good project management will be essential.

Janice has been given a copy of a project plan from a friend's business. An extract is shown in Fig. 2 below.

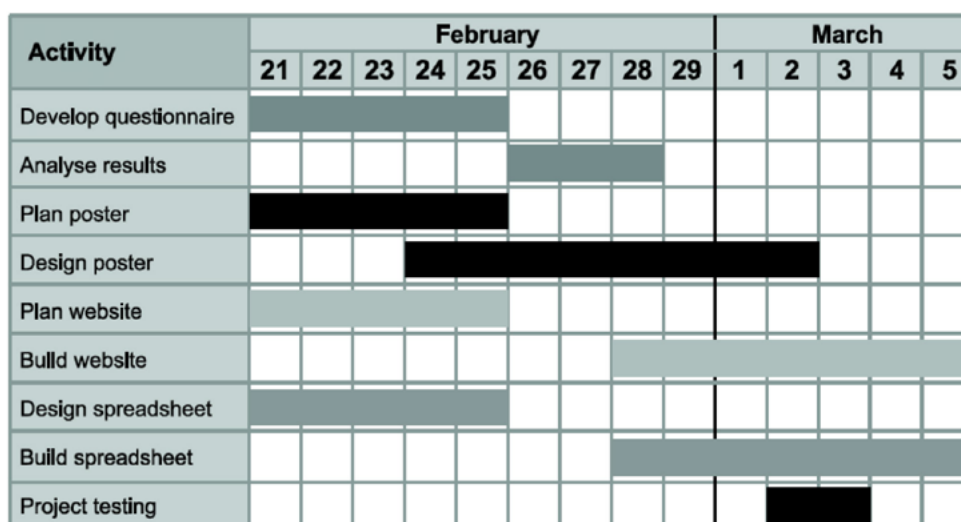


Fig. 2

- (a) (i) State the name of the project management tool shown in Fig. 2.
 ... *Gantt chart* [1]
- (ii) Explain how using the project management tool shown in Fig. 2 could help Janice plan **Option 3 – Open a soft play facility with on-site ice cream café**.
 ... *Gantt charts allow managers to plan the resources needed (1 mark) so that they are available ... when required (1 mark).* [2]

Responses include

- *Plan resources needed*
- *Show the order tasks should be completed*
- *Help assess how long a project should take*
- *Show clearly relationship between tasks*
- *Help with the time management of tasks.*

- (b) In order to make an informed decision about **Option 3 – Open a soft play facility with on-site ice cream café** Janice will have to study lots of information.

Identify **one** criterion Janice could use to judge the validity of any information she uses.

... *Reliability* [1]

Responses include

- *Bias / relevance / complexity / degree of detail / currency (up to date) / intended use / quality.*

Mark scheme guidance

- 6ai) For one mark
- 6aii) One mark for a correct identification plus a further one mark for an explanation.
- 6b) One mark for a correct identification.

Question 6c

- (c) Some employees at *IceCrazy* seem to be resistant to the changes that **Option 3 – Open a soft play facility with on-site ice cream café** would bring.

Explain **two** ways that Janice could encourage employees to be more positive.

1. ... *If staff are involved in the decisions that are being made (1 mark) they will much better*
 ... *understand why they are happening (1 mark)*

2.

[4]

Responses include

- *Involving staff in the decisions / planning*
- *Listening to the views of staff*
- *Be upfront about all possible changes*
- *Take the time to talk to staff and allay fears*
- *Increase wages*
- *Fringe benefits.*

Mark scheme guidance

One mark for each correct identification up to a maximum of two identifications, plus a further one mark for each of two explanations.

Question 7

- 2 Recommend which option, or combination of options, would best secure the long term future of IceCrazy. Justify your view.

[16]

	<i>Option 1 Larger ice cream parlour</i>	<i>Option 2 Healthier flavours</i>	<i>Option 3 Soft play and ice cream café</i>
<i>Cost</i>	<i>£55,000</i>	<i>£7,000</i>	<i>£85,000</i>
<i>Additional revenue expenditure</i>	<i>Lease and wages 35000</i>	<i>None</i>	<i>Lease and wages 40000</i>
<i>Payback</i>	<i>3 years 8 months</i>	<i>2 years 3 months</i>	<i>5 years 2 months</i>
<i>ARR</i>	<i>27%</i>	<i>51%</i>	<i>19%</i>
<i>Finance</i>	<i>Reserves + external</i>	<i>Reserves</i>	<i>Reserves + external</i>
<i>Legal constraints</i>	<i>None</i>	<i>None</i>	<i>Planning permission DBS checks</i>

Exemplar responses:

e.g. hybrid of accounting and finance and general business perspective.

It is important to consider the capital cost of each option when choosing between options (Level 1). On the face of it Option 2 looks like the right decision because it is the cheapest of the three options (Level 2) and could be funded from reserves. The payback period, although not the shortest, is in the middle of the 3 options at 5 years and the ARR is a very healthy 51%. (Level 2). The level of risk factor for option 2 is therefore low. In addition to this, qualitative evidence in the article from Reuters shows that there is a demand for healthier options in this market (Level 2). My recommendation, would therefore, be for IceCrazy to implement option 2 because it will return increased profits from a small capital investment, without the need for borrowing. It helps secure the long-term future of the company by increasing the number of customers that regularly buy from them, whilst moving into a market that is growing (Level 3).

However, I think that IceCrazy should also consider option 1, which although the Boston Matrix would put this option as a question mark, the Ansoff Matrix establishes it as low risk because it achieves growth by selling existing products in an existing market (Level 2). Additional borrowing would be required which increases risk for the business. However, the current lease is about to expire, which would require further capital expenditure simply to keep the current café open (Level 2). This means that at least half of the proposed expenditure on the new lease would have to have been spent anyway, making option 1, with its much larger capacity and take away facility a much more attractive proposition (Level 3). Option 1, would increase IceCrazy's customer satisfaction with the option for takeaway and less queues in the summer months. With a careful project plan to ensure that costs do not escalate and increased use of social media to increase the customer base option 1, with its 10 year lease will secure long term growth for IceCrazy (Level 3).

Option 3 represents such a large diversification into an area where the owners have little expertise and the level of borrowing will be so high, that I think that the risk is too great (Level 4). With a combination of option 1 and option 2, IceCrazy will have the opportunity to grow the wholesale and retail side of the business together, with each owner taking responsibility for one venture, thus securing the long term future of the company (Level 4).

Mark scheme guidance

NB: This question includes two embedded marks for applying knowledge from Unit 1 LO8 Assess business performance.

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.

Levels of response

Level 4 (13 – 16 marks)

Candidate recommends and justifies which option *IceCrazy* should take.

Level 3 (9 – 12 marks)

Candidate analyses one or more options under consideration at *IceCrazy*.

Level 2 (5 – 8 marks)

Candidate explains issues relating to one or more options under consideration at *IceCrazy*.

Level 1 (1 – 4 marks) Candidate identifies issues related to decision making.

Level 4 evaluation

Award 13 marks for suggesting the most beneficial option for *IceCrazy* with justification for the choice. Award 14 marks for suggesting the best option in context with justification.

Award 15 marks for a detailed or specific contextual judgement of the most suitable option.

Award 16 marks for a detailed and specific contextual judgement of the most suitable option.



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