

A LEVEL

Exemplar Candidate Work

BUSINESS

H431

For first teaching in 2015

H431/01 Summer 2019 examination series

Version 1

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Introduction

These exemplar answers have been chosen from the summer 2019 examination series.

OCR is open to a wide variety of approaches and all answers are considered on their merits. These exemplars, therefore, should not be seen as the only way to answer questions but they do illustrate how the mark scheme has been applied.

Please always refer to the specification <https://www.ocr.org.uk/Images/170837-specification-accredited-a-level-gce-business-h431.pdf> for full details of the assessment for this qualification. These exemplar answers should also be read in conjunction with the sample assessment materials and the June 2019 Examiners' report or Report to Centres available from Interchange <https://interchange.ocr.org.uk>.

The question paper, mark scheme and any resource booklet(s) will be available on the OCR website from summer 2020. Until then, they are available on OCR Interchange (school exams officers will have a login for this and are able to set up teachers with specific logins – see the following link for further information <https://www.ocr.org.uk/administration/support-and-tools/interchange/managing-user-accounts/>).

It is important to note that approaches to question setting and marking will remain consistent. At the same time OCR reviews all its qualifications annually and may make small adjustments to improve the performance of its assessments. We will let you know of any substantive changes.

Question 16

16 Go Race! is a small business.

Analyse **one** way being a small business might benefit Go Race!

Exemplar 1

6 marks

Being a small business might benefit Go Race! because he can have better connections/communications with his staff. This allows for the company to run more efficiently and therefore have better customer service towards the customers. Ross employs three staff which means he can get to know them better (which he has) so that he knows ~~how~~ how to best motivate them in the work place. Ross can ~~learn from~~ find out what motivates them to do better whether it's: Spring benefits or financial. He can then act on this is they start to get demotivated to ensure customer service is at its maximum standards. Having ~~a~~ high customer service in this job is crucial as they ~~offer~~ detailed instructions before the race. This ~~implies~~ implies they talk to the customers, and customers would more likely to return if the employees talk nicer and have fun as it persuades customers it's a fun place. ~~to~~ This may increase long-term loyal customers, increasing sales and maybe profits. [6]

Examiner commentary

This is a very well written answer. The candidate begins by identifying that communications between the owner ('Ross') and his staff are likely to be clearer in a small firm. There is then appropriate use of the context ('Ross employs three staff'). The candidate explores the idea that if Ross can communicate easier, he will know how to motivate his workers leading to the impact of better customer service. This impact is further developed to include a longer-term benefit for Go Race!

Exemplar 2

3 marks

Go Race! is a small business. ^{clearer objectives} communication ^{→ fast decisions}
^{→ happy workers}
 Analyse one way being a small business might benefit Go Race!
 tall/long structure

By Go Race! being a small business it often allows for better communications to be made. These communications can then allow for faster decisions to be made as there are less obstacles and less miscommunication (which can both be very costly to a business).

By communications being better due to the scale of the business it can also improve staff motivation and productivity due to objectives and what is being asked of them being clearer. This happens in smaller businesses as the structure of management is often short and not tall (has fewer layers) meaning information can be utilised sooner as it only has to pass through Ross James and his 3 employees rather than entire networks of people.

The communication can also make employees feel more valued and therefore work better, as scientific theory suggests that employee interaction and happy workforce results in better staff overall which leads to a better service and production

[6]

Examiner commentary

The second exemplar also focuses on the benefit of better communications on motivation in a small business. However, this answer is quite limited contextually – there is none in the first paragraph and it is only at the end of the second paragraph we find a reference to the case study ('3 employees'). The candidate does provide a basic impact of this benefit on the 'improvement of productivity', but further contextual application and development would be needed for this answer to move up to 5 or 6 marks.

Exemplar 3 (Low)

1 mark

Being a small business means low running costs. This is because smaller businesses will likely use smaller spaces that will also require less energy (electricity) to run, therefore the cost of running the business will be lower.

Due to these lower running costs are also as a result of the limited needs of the business, this is ^{due to} ~~as a result~~ the sustainability of the business being higher since it will require less to function, this is in contrast to larger businesses since the larger a business grows, the more financial support is required for that business to sustain themselves.

Examiner commentary

This is an example of an answer that has understood that the question is about small businesses but failed to acknowledge that reference to the case study is required – the question states the benefits to Go Race! specifically. There is no use of the context in this answer, and it offers only some simple 'textbook knowledge' of the benefit of low costs. The candidate provides more evidence of not applying their answer to Go Race! through the notion of smaller firms using less electricity – due to the nature of Go Race! and what they offer this is very unlikely to be true. This answer gains one mark for a generic piece of knowledge ('low running costs').

Question 17

17 Refer to Table 1.

Analyse **two** reasons why it is important for Go Race! to offer customers a variety of different prices.

Exemplar 1

9 marks

One reason Go Race! must offer a variety of prices is because the demand is likely to change at different times of the day. This is because people may be more likely to want to race after they have finished work for example. As a result Ross must alter the price in order to control demand because at a higher price demand falls. This means that fewer people may be left disappointed with being unable to race because Ross is unable to change his supply, due to there being a fixed number of seats. ^{and law} Which leads to Go Race! ~~be~~ being perceived as a better company because fewer racers will be left disappointed. Which ultimately means that as a small business Go Race! can maintain its strong public image, which is very important. // Another reason it is important for Go Race! to offer a variety of prices is to appeal to as many consumers as possible. This is because as a new and small business it is important to attract ~~as many consumers~~ as build up a good consumer base. As a result of offering different prices ~~**~~ Ross would likely see his demand for racing increase because he is supplying to a greater amount of people racers. This means that Ross would likely see revenues and profits increase because of increased sales ^{of refreshments}. This would then help Ross establish himself further and strive towards his target of £50000 profit per year.

* In order to begin aiming for objectives set

** such as ~~at~~ £5 cheaper for a 60 minute slot before 5pm. [9]

Examiner commentary

Better answers on this question identified the reasons for differing prices from the view of Go Race! and not that of the customer. This question requires TWO different reasons why different prices are important with developed analysis to gain the full 9 marks available. There were some very good answers to this question, and this is a typical exemplar.

This answer starts with identifying a reason for different prices is due to levels of demand during the day and this is contextualised by mentioning Ross altering prices, so people are not left unable to race. The use of differentiated pricing to solve the issue of unhappy customers provides an impact of Go Race! being able to be perceived as a better company and this is developed further to link to the relative importance of this to Go Race! as a small firm.

The next reason provided ('to appeal to as many customers as possible') is clearly different from the first, and a very good approach to a question explicitly asking for more than one reason. The candidate uses context well throughout. The offering of different pricing strategies leading to an increase of sales and a further move towards his overall objective is a very logical developed piece of analysis.

An answer of this standard is characterised by being contextual throughout along with two well-structured and developed pieces of analysis about the importance of offering different prices for Go Race!

Exemplar 2

6 marks

attracts people when it may be less busy → revenue
 Refer to Table 1.
 discounts / offer times and groups
 pay / he / used for advertising
 few racing simulations → competitive adv
 Group prices discount. cheaper for less busy hours party

Analyse two reasons why it is important for Go Race! to offer customers a variety of different prices.

One reason why it is important to offer a variety of different prices is that provides a competitive advantage. For example, for the same amount of time on the simulation before 5pm is £10 per person whilst after 5pm is £10 per person but also Go Race! offers a "discount" for groups. These pricing changes are likely to be important since they provide an advantage since their competitors may be charging more or not varying pricing depending on time so customers will choose their service over competitors ones. But also since "few racing simulation businesses exist" it is also an advantage for customers that it is even more likely to attract more making it a useful competitive advantage. so it will be important to offer a variety of prices.

Another reason why it is important is that it can be used for marketing "Go Race!". If Go Race! advertise their prices on their websites and social media it is likely to attract customers to their business since the

pricing variety varies on times and group sizes. Also if their customers who are "18" and still in school know it is £2 cheaper before 5pm they may bring friends to go to the simulation after they finish school therefore the pricing variety is a useful important for marketing to attract customers.

Examiner commentary

This is an example of a mid-range answer – characterised by good knowledge, some context and basic analysis. More developed analysis is needed to bring this answer up to 8 or 9 marks.

The two reasons why it is important to offer customers different prices are different (*competitive advantage and marketing*) and both are in context (simulation, mention of group discount with data from case study). Both paragraphs provide a valid reason why it is important to have different prices for Go Race! but this is very basic. The answer would have benefited from some further development of the impacts on Go Race! and further chains in the analysis.

Exemplar 3

4 marks

One reason is because Go Race will have different customers who want different experiences. For example if they charged the same prices throughout it might still attract racers who want the Grand Prix session however Junior parties may be less frequent because of no price change. Therefore, a result of this could be that Go Race lose customers and revenue because groups of 12 or more get discount but if they kept prices the same then they may go elsewhere instead which provides better value for money.

Another reason is, offering a variety of prices allows them to appeal to all types of people. This is good because Go Race charge £8 for a practice session of 20 minutes before 5pm meaning they are flexible and can appeal to aspiring racers and then if people finish work after this 5pm deadline there is only a £2 increase. Therefore this means Go Race are adaptable and can attract different types of customers but also it will allow them in the future to maybe specialise in one certain area.

Examiner commentary

This answer provides knowledge of reasons for having different pricing ('customers want different experiences' and 'appeal to different types of people'). The candidate does then use the context well to exemplify their points. However, they do not address WHY these reasons are important for Go Race! and the impact of offering these different prices to customers.

Question 18

18* Evaluate the risks which may have been encountered by Go Race! in its first year of trading. [15]

Exemplar 1

15 marks

One risk Ross might have encountered is the competition from games available to play at home because potential customers could pay a one off fee to purchase a racing game at home. ~~As a result Ross may have had to increase his promotion to highlight how his product differs from that of a PS4 game. This is because otherwise the business may not have been able to obtain customers and racing consoles are so popular and thus seen Ross' service as unnecessary.~~ As a result in the first year, Go Race! might have seen fewer racers than initially forecasted because they opt to race at home. ^{for cheaper} As a result Ross might be likely to have reduced adverse revenues because he was expecting more than 300 racers in the first month. This could lead to Go Race! having cash flow problems and so might have struggled to pay back on their family loans because of reduced revenues which could mean Ross' personal life is affected. The magnitude of this risk depends on how well Ross is able to communicate how his company differs from PS4 games. This is because if Ross can successfully explain how his racing sim is different to Forza Horizon for example this risk can be minimised very early on in the year.

Another risk Ross ^{would have} faced in his first year is through lack of capital, this is because he might not have been able to offer as high quality a ^{service} as he wants.

Examiner commentary

This question required candidates to evaluate the risks encountered by Go Race! in its first year of trading. Better answers understood the difference between a risk, and general negative issues that occur. It must also be noted that, as can be seen from the mark scheme, each of the three 15-mark questions contain 7 marks of evaluation (AO4). Therefore, answers need to contain a significant amount of evaluation, on top of developed analysis, to score well.

The answer starts very well by considering the *risk faced by competition* (knowledge) from racing games played at home (application), which means that Go Race! might have fewer racers than anticipated (analysis) which can lead to cash flow problems (developed analysis). This 'double link' is something to look for in answers as it may be a sign of developed analysis.

A second risk (*lack of capital*) is identified and developed in a very similar way to the first paragraph – lack of capital (knowledge), harder to promote the racing simulator (application), difficult to connect with racers (analysis) leading to lower sales revenue (developed application).

What raises the level of this answer is the evaluation that is evident throughout. At the end of the first paragraph, the candidate makes an assertion about the magnitude of the risk on Go Race! which is worthy of evaluation. At the end of the second paragraph, the candidate again displays evaluative skills by assessing how much Go Race! will actually be affected by this risk.

At the end of the answer the candidate provides an all-encompassing conclusion on which is the greatest risk, which is then justified using knowledge and clear contextual understanding. A really well-structured answer that is worthy of full marks.

Exemplar 2

7 marks

One risk Go Race could have encountered was the effects of ever changing technology. As technology improves, it may force Go Race to go with the changes as customers will expect the best tech + quality experience from a business that relies on it so heavily. If they Go Race was able to stay on trend in terms with updated tech as they ~~cross~~ decided to save money buy leasing tech as well as property instead of buying. This means the effects of depreciation are lowered. Also this would save money for if Go Race needed to upgrade its software + equipment in case technology further improved and the current equipment became ~~not~~ obsolete. This may have been difficult especially in the first year of ~~trading~~ trading because Go Race ~~may~~ would not have had the biggest access to finances ~~was~~ compared to a business in its 3 or 4th year of trading. This could have led to financial problems

which could have meant the closure of the business.

Another risk that was there was that although he had management experience, Ross had never run his own business before. This could have lead to issues within the business such as ^{liquidation} ~~financial~~ issues. However before the business was established, Ross demand out his business ideas for a year before investing any money. If he had gradually invested on the ~~equipt~~ equipment, the Go Race may have suffered as a result of obsolescence of the products he had purchased. This could have ~~be~~ lead to a waste ~~and~~ money on products that don't perform as well as others, which could have lead to giving customers a bad experience ^{which} ~~for~~ especially - in the first year of trading is ~~a~~ not a good thing to do as you will have a smaller ~~as~~ customer following. This could have lead to the loss of ~~potential~~ sales as word of mouth customer experience as well as tripadvisor reviews may give Go Race a bad ~~a~~ rep for poor customer experience. This could then lead to ~~above~~ or no profits, forcing ~~the~~ Go Race to close.

Examiner commentary

This was a very typical answer that contained an understanding of risk but made no attempt at evaluation.

The first paragraph makes a good start as changing technology is a reasonable risk that Go Race! would have faced and the candidate acknowledges this is especially relevant because of the type of experience Go Race! offers its customers. The paragraph loses its way slightly in the mid-section but does make its way back to a piece of developed analysis at the end of the paragraph (*lack of finance in the first year to buy the best technology, could lead to financial problems*).

The second paragraph provides a basic piece of contextual analysis within the first 5 lines (*Ross has never run his own business before, and this could lead to liquidation issues*) but fails to further develop this any further.

This answer could have been improved if the candidate had provided some evaluation, as required in the stem of the question.

Exemplar 3

3 marks

bad news ✓ good risks good supplies ✓

9

Evaluate the risks which may have been encountered by Go Race! in its first year of trading. [15]

There may have been many risks which Go Race encountered in their first year of trading. For example, their first risk might've been choosing the right supplier which they had to trust. This is because this supplier must be on target with everything.

In the first year of trading, everything towards a small business could be seen as 'new' as James ~~is~~ hasn't done it before. This means that he might not know what he was doing and might've found it difficult. As a consequence, trading might not have been that easy in the short term as that's the time where everything is being managed. Moreover, as he has 'never run his own business' there might've been some mistakes or errors.

However, some of the risks may have been beneficial to the business's knowledge. For example, if it's difficult for James to forecast demand, there might be trouble towards the business and its future plans. This would lead to a risk of losing revenue and profit.

Examiner commentary

This answer contains very limited use of the context and does not analyse. There is knowledge of risks faced by a firm in its first year (choosing the right supplier and the owner not knowing what they were doing). There is an attempt at some use of the context towards the end of the second paragraph.

This answer could have been improved by utilising more of the context and developing analysis.

Question 19(b)

(b)* Evaluate how the method of depreciation used by Go Race! may affect its financial position. [15]

Exemplar 1

11 marks

Evaluate how the method of depreciation used by Go Race! may affect its financial position. ^{↑ false assumptions} [15]

PLAN: ^{↓ estimate/guess} it will show them
 may have to get how much products
 new simulators so decreasing therefore they
 case said they want will know how much it's
 case all their investment he worth to sell on →
revenue = cost
 external factors make calculation incorrect? e.g.:
 damage to machinery

Depreciation is a method which allows a business
 to calculate how much their assets such as
 a racing simulator will be worth in e.g. 5 years.

Depreciation has a limitation of only being an
 estimate so therefore if Ross was to assume that
 a simulator decreases by £1250 a year then this
 may not be accurate since it is only an
 assumption when in reality it may be worth more or
 less than what was predicted by the depreciation
 calculator. This means whilst Ross may predict that
 Go Race will be in a good financial position if
 the simulator he is utilising isn't depreciating as much
 as his competitors when in actual fact it could be
 depreciating more. This will affect his financial
 position since he may have false hopes of the
 value of his assets if for example he was going to

sell on his used simulator before purchasing a new model. ^{ross} He may get less for it than he thought which may mean he has to possibly obtain a small loan to get a new car which may put him in a bad financial position. However, if his depreciation calculation is as accurate then this ~~improvement~~ can help his financial position because he will be aware of the value of his assets. This may be even more useful if Ross was considering opening more locations for his franchise he may be able to use the simulators as security against any loan. Depreciation can be risky to use since it is essentially a estimate however if done accurately it may be useful for advising his financial position in the future so Go Race! should use it.

Depreciation may affect Go Race!'s financial position if factors out of the business's control or an unexpected event makes the depreciation guess inaccurate. For example, Go Race! allows young children (7 years old), ~~if a child was~~ up to any age although their main customers are between "18-35". If one of their customers was to accidentally damage any of their simulators by maybe spilling "drinks" on it or damaging the screen for example this makes their depreciation guess wrong. In 2020, Ross's simulators will be worth £250 according to the depreciation but if the simulator is damaged it will actually be worth much less making the calculation invalid. Also, if any trend changes out of Go Race!'s control occur e.g. higher or lower demand for this service this will also mean that using

depreciation will be invalid. However, if no events outside of Ross's control do not occur then his depreciation estimate will be valid and he can use it ^{as} accurately as possible with out his financial position in a year or two. Outside factors will affect how useful depreciation is ~~then~~ ^{to} see the effect on ^{the} financial position.

To conclude, the method of depreciation will be affect Go Race! financial position on one hand whilst it may only be an estimate from the assumption on how much it value a asset will decrease by. If this assumption is accurate it will be useful for seeing how depreciation will be affect financial position therefore, Go Race should continue to use this method.

Examiner commentary

This question on methods of depreciation was the lowest scored of the 15-mark questions on this paper in general and few very good answers were seen. Even this answer, which scored 11 marks, does not use a great deal of terminology and concepts that would be expected to be seen when discussing depreciation. Better answers for this question understood that the question was asking about the method of depreciation used, rather than depreciation as a concept.

This exemplar provides a good definition at the start followed by the use of the answer they have calculated in 19a for the depreciation figure for Go Race!, providing some use of the context. This figure also implies the straight-line method is being used, although the terminology is not present. The candidate then goes on to explain the problem with using this method leading to 'false hopes' of the assets value, affecting the financial position meaning that Ross may not be able to gain loans in the future, which provides a good example of developed analysis. Towards the end of this paragraph, the candidate provides an assertion about how the impact on the depreciation method on the financial position can be managed, providing evidence of evaluative skills.

The next paragraph discusses the simplicity of the method of depreciation used, and that it does not consider external factors (nb – benefit of doubt being given here, as this is also the case with the reducing balance method). The candidate provides reference to the age of the customers of Go Race! contextualising this section of the answer, before providing a positive and negative impact on Go Race! of the depreciation, showing developed analysis.

The remainder of the answer is vague and non-contextual and would have benefited from reference back to the question and use of the case study.

Exemplar 2

7 marks

The method of depreciation may affect its financial position in the means of liquidity. This is because if depreciation is not accounted for, ~~the~~ the business will appear much more liquid than is perhaps true.

* For example with its simulation machines, As a result, Go Race will appear to be a safer investment to financial borrowing firms and banks. This leads to Ross finding it easier to attract investment from various institutions. Therefore allowing Ross to expand and innovate the experience that he provides, for instance, being able to purchase more simulators with the capital that can be raised. Ultimately, this will allow Ross to grow with a greater stance for investment negotiations and better access to capital. However, should the business not be able to pay off its payments, the sale of for instance, the simulators will not ~~bring in~~ ^{sell for} that ~~expected~~ ^{listed} value. As a result, Ross will have to find finance elsewhere and may look to the investments made by friends that he encouraged to invest. This may cause very negative confrontations and ultimately ~~cause~~ ^{cause} great damage ~~to~~ Go Race as friends may decide they no longer want to be involved.

If Go Race measure the depreciation of their

assets too harshly. This will damage the financial position of Go Rac. ~~This is~~ For example ~~because~~ if depreciation is measured as a constant decreasing amount year by year, even if ~~the use is had in the~~ the asset is in great condition after four years, it will still be depreciating at 'the same rate as the first year'. This will damage the financial position of the business as it will dissuade and prevent investment due to the lack of value in assets as security. As a result, Go Rac will struggle in gaining investment. ~~It~~ This leads to limited growth for Go Rac and may cause Ross to undertake investment on unfavourable terms. Therefore leading to higher costs for Go Rac due to poor lending agreements and a further restriction on the growth of the firm. However, if a constant discount rate or percentage is used, Ross may find that he is unsure of the value of his assets at given times. Therefore, being less confident in approaching potential investors and spending more time organising figures. If these percentages are also too harsh, Ross will find the value of his assets depreciating considerably faster than their return comes in.

In conclusion, ~~over~~ ^{over} ~~undervaluing~~ ^{undervaluing} assets would be most detrimental to Go Rac's financial position. This is because ~~growth~~ ^{investment} will be limited and investment is crucial.

for growth. ~~However~~ In the short-term this would increase the likelihood of failure and worsen the financial position. However, in the long-term, Ross may find that he has to sell some assets in order to remain solvent and that the return of those sales is much lower than expected, which could be detrimental to his business. However, individual methods can all be used properly and improperly and the use of each either stepped depreciation or continuous depreciation does not ensure accurate valuation. Overall, Ross should value the depreciation of his assets as best as possible, and be transparent when seeking investment to avoid issues in the future with his financial position.

Examiner commentary

This is a good example of a common answer that was seen – one good paragraph with developed analysis, but no evaluation.

This second exemplar starts well. They begin with some understanding of depreciation and apply this to the value of the assets (*simulators*) in context. The answer then goes on to explain the impact this has on how the company is viewed financially (we can assume they are discussing the statement of financial position here) and the impact on its financial position, and its impact on future financial decisions showing developed analysis.

Unfortunately, the rest of the answer provides little more than non-contextualised knowledge about depreciation.

This answer would have benefitted from further use of the context and analysis. If the final paragraph was more focused and contained reference to the case study, it may lead to some evaluation.

Exemplar 3

0 marks

This may affect ~~the~~ Go Race financial position because with their simulators being value very quickly it could lead to regular investments being required. ~~As~~ As a result Go Race might have to increase their prices for each ~~of~~ different section they offer. This is

because if they are updating the simulators then costs increase meaning it is higher sales for Go Race to break-even and then begin to make profit. Furthermore, if Go Race do not update simulators that depreciate quickly then customers may be put off repeat purchase because they want the best up to date software. However, Go Race might be able to lower their costs instead making it more accessible and appealing to customers who want to just come as a group and race, therefore increasing sales and their financial position.

Another affect is if they don't update their depreciating simulators it may lead to new competition taking advantage as there are low barriers to entry in this market. This means if Go Race don't keep having replacement software depreciation could mean that their financial position becomes weaker as their costs are increasing and customers maybe decreasing because of cheaper alternatives or a new business may come into the market with the latest software. Furthermore depreciation quickly means they will get less return out of their investments as they won't last for many years meaning they can never be sure if they are financially stable in their position as they might have to buy a new machine soon to deal with Go Race's depreciation.

Examiner commentary

This answer was characteristic of those that did not show evidence of understanding methods of depreciation or depreciation as an accounting concept and confused this with assets just being worth less over time.

This answer focuses on Go Race! not updating their simulators as they grow old. There is no creditable understanding or reference to the concepts in the question (depreciation methods or financial position) in this answer.

Question 20(b)

(b)* Evaluate whether Ross should try to achieve his growth objective by franchising the business in the future. (Lines 64–68) [15]

Exemplar 1

15 marks

Franchising the racing simulator would mean Ross' company would have access to a larger racing base than any one business could have ^{alone} this is because the place Go Race! is offered could be more accessible in another location. As a result of franchising it is likely the demand for Go Race! will increase because it will be offered in more than one location. This means that there will likely be an increase in sales revenue because of the franchisee also offering the service and with two business locations the amount of ^{potential} racers increases. Therefore, as the franchisee will pay ~~the~~ royalty payments to Ross, it would help him reach his objective of £50000 profit per year, provided the franchise is also profitable. However, the extent of this depends on how many ^{people} franchisees are likely to want to purchase a part of the Go Race! franchise, this is because as a relatively new and small business it is very unlikely too many people at the current state would want to franchise Go Race! As demand is 'hard to forecast' with one business, another ~~one~~ is likely to face these same problems and risks. This means that despite earning a £1655 revenue in July, very few people are likely to pay to franchise Go Race! due to high levels of risk. As well as this as Ross is an inexperienced ~~man~~ manager he may want to focus his energies in his own store as opposed to ~~not~~ looking to franchise//

Another way Ross could meet his strategic objective is to increase his customer numbers, this is because if more racers are racing Ross will see increased revenues and profits. As a result of increasing his racing numbers Ross will be able to increase revenues because more racers means more revenue. ^{from completion goals} This increase in revenue would also mean Ross could reinvest and improve his company because he would have more capital to do so. This means Ross would be able to offer a more premium service due to the quality and thus charge a more premium price, which ultimately means that Ross could get closer to his £50000 objective because increased price means greater profits. ^{if demand stays constant} However, the extent of this happening depends on the demand for Go Race! This is because if Ross ~~is unable~~ demand is already at a maximum Ross will be unable to attract more racers. Using fig 2 we can see customer numbers have remained at 800 for ~~post~~ 4 months and so Ross must decide whether the ^{demand} supply for Go Race! ~~is~~ exceeds this number in order for him to be able to attract more racers in the future.

~~The best~~ In the current state of Go Race! Ross should not try to franchise, this is because the business is new and so there is still a lot of risk attached and so there are unlikely to be many people willing to become a franchisee. Instead in short term Ross should ~~try~~ identify where the demand lies to see whether he can reach his objective of £50000 a year profit. Longer term once the business is able to establish itself further then Ross may look to franchise. However, ultimately that is not a viable method to reach his strategic goal at the given time.

Examiner commentary

Candidates coped well with this question, and it was generally the better answered of the 15-mark questions on this paper. This is one of the best answers seen to this question. The candidate immediately identifies that Ross will have access to a larger customer base, and as a result the franchisee will bring in sales revenue, some of which will be paid to Ross in royalty payments helping him meet his objective. The paragraph is contextual throughout and contains developed analysis. Towards the end of the paragraph, there is some clear evaluation shown about the relative likelihood of this happening and a judgement of the factor in context.

The next paragraph follows a similar style, exploring the impact that franchising would have on the what the company is able to offer its customers and how this can be used to meet the growth objective, again with evaluation towards the end of the paragraph.

The final paragraph is an excellent piece of developed evaluation which provides an overall judgement that is justified. There is a real appreciation of the strategic issues faced by a new firm looking to franchise (risk, being relatively unknown) and ultimately how viable this option is for Ross. This is a well-structured answer that clearly addresses the question and clearly contextual throughout.

Exemplar 2

6 marks

When franchising a business the owners of the business (franchisor) have very limited/ ~~financial~~ no financial risk direct financial risk when another or multiple franchises are established by the franchisees.

By becoming a franchise it is likely that the business will grow as it would usually be placed in a different area to the original business, therefore this should increase the number of customers which should in turn increase sales & profits.

Another benefit of becoming a franchise is that Go Race will not have any ~~extra~~ direct costs when ~~est~~ establishing the new franchise. This is because the person investing in buying the franchise takes on all the costs. Also the franchisee has to purchase Go Race stock when and if required. They ~~can't~~ can't purchase from elsewhere as it can destroy ~~target~~ brand image due to ~~in~~ inconsistency. However Go Race could suffer from indirect costs as a result ~~as~~ of poor customer experience.

Customers may have a poor experience in one of its branches and this may put the customer off returning to Go Race. It also may lead to bad reviews online such as on Trip Advisor which can damage brand image. ~~This would happen~~ which leads to a lower amount of sales and therefore profit.

This could happen as a result of lack of supervision. Ross would have a wider span of control which could allow for laziness in the other branches. ~~Another way this~~ which could be the cause of the poor customer experience.

Currently Ross is operating as a PLC. ~~This can be beneficial~~ operating in this way can be good because you can benefit from limited liability as well as being able to raise finance through selling shares to family & friends, you are also able to keep ownership of the business by becoming majority shareholder. This is more challenging operating as an LTD as you can lose control of ownership as you sell shares on the stock market.

In conclusion, believe it would be beneficial for Go Race to operate as a franchise as this can lead to quicker growth than ~~you would do as a PLC~~. However for Go Race to keep up a good customer experience it is vital that Ross doesn't lose control and

ensures there is no laziness in the other franchises.

Examiner commentary

The first two paragraphs provide some knowledge of franchising but no reference to the context of Go Race!. The answer then makes mention of the franchise affecting the reviews on trip advisor, which is a reference to the case study data, providing context, and then discusses the impact this may have on the sales of Go Race! and ultimately profit (which is how Ross is measuring his growth objective) thus providing some basic evaluation.

The rest of the answer is not answering the question. The candidate enters a discussion over the ownership structure of Go Race! and starts to veer away from the question. The very last sentence does provide an unsupported assertion about an issue Ross may face with using franchising and is evidence of the minimum expectation for evaluation.

This answer would have been improved if the candidate focused on the use of franchising for growth and developed their analysis further.

Exemplar 3

3 marks

Evaluate whether Ross should try to achieve his growth objective by franchising the business in the future. (Lines 64–68) [15]

Ross has a strategic objective to grow his business to earn £50,000 profit a year. He wants to franchise the business offering a 'turn-key service'. In order to offer this service Ross would have to have enough finances. A franchise is a business which operates in all different areas, it's the same business, such as McDonalds, owned by one person and run by different franchisees. A franchise has all the same equipment, food, supplies etc... just needs new staff. Setting up a franchise can initially be very expensive, but if the business is well known then there will also be a good outcome with profits as you know you would be generating money.

The franchisor would have to train the franchisee, however it shouldn't take as long as training within other jobs, as people would have an idea of the business already. The franchise would already have a well balanced customer

base and target audience. A strategic plan is one that has been thought of around risks and uncertainty.

Ross offers various luxuries within his business to be able to achieve growth, this company markets for social events, particularly for groups. They advertise using a company website, Facebook, Twitter and YouTube. The main target audience for the business is 18-35 year olds, which is why they use those advertisement methods, to reach more out to those age groups. The business offers complementary products such as, drinks, snacks, racing medals and trophies. This will also appeal to younger audiences.

There are different sources of finance that Ross could use to achieve his franchise objective, he could use a long-term loan, then as the business develops he would be able to repay his loan using the profits from the franchise. Or he could use a short-term loan, as he would know money would be generating quickly from a franchise, so the loan wouldn't take long to pay back.

If Ross was to offer even more group prices or racing for a larger target audience, such as younger children or different race courses to choose from, then he can be generating money to save towards his franchise objective. However, in order for Ross to be able to do his 'turn-key service' then he cannot go straight into a franchise,

He could make his prices slightly higher for a short while, to give his objective a slight boost, or lower his prices to draw the attention of more customers and let people / existing customers know of his plans to generate a good source of finance quicker and more effectively without losing customers.

Examiner commentary

This type of answer was typical where students had not appreciated the use of franchising to achieve a future growth objective. The candidate starts with some understanding that Ross will be offering a 'turn key service' but other than that, the rest of the answer just provides knowledge about what franchising is with no mention of how it can specifically be used to achieve the growth objective of Go Race!

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