



January 2018

**Level 3 National in
31589H Business Decision Making**

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A grade boundary is where we set the level of achievement required to obtain a certain grade for the externally assessed unit. We set grade boundaries for each grade, at Distinction, Merit, Pass and Near Pass.

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When our experts set the grade boundaries, they make sure that candidates receive grades which reflect their ability. Awarding grade boundaries is conducted to ensure candidates achieve the grade they deserve to achieve, irrespective of variation in the external assessment.

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Unit 7: Business Decision Making

Grade	Unclassified	Level 3			
		N	P	M	D
Boundary Mark	0	12	24	39	55

Introduction

Centre's had previously had access to sample assessment material and sample marked learner work, but this was the first live assessment opportunity for this unit. The assessment consists of an unseen case study with two activities. Activity one requires candidates to study the data provided and then justify the selection of one of the two business opportunities identified. There is no requirement for candidates to think up their own alternative options. For activity two, candidates have to provide a summary of their choice of business and provide a rationale for the choice made.

The sample marked learner work for this unit should have prepared candidates for this assessment. Candidates were given data on a business providing bespoke fitted bathrooms. They had to decide, using the data provided, whether to close the existing show room to save costs, or to relocate it to target more affluent customers. Market trends, together with competitor and financial data was provided. Candidates could decide on either option but needed to justify the decision reached. When making decisions such as these, it is expected that candidates will use some of the business decision making tools contained in the unit specification. These include PESTLE analysis, SWOT analysis, Porter's five forces model or the 5C model. Other decision-making tools/models could also be used.

In the January test, the scenario and data centered around a hairdresser wanting to start her own business. Option one was to open a gentleman hairdresser business and employ staff to help run it. Option two saw the entrepreneur renting a chair in an existing salon. Candidates were provided with sales revenues and cost implications for both options. Information on market trends and competition was also provided.

Introduction to the Overall Performance of the Unit

Given this was the first live test based on an unseen case study, candidates performed well on the first activity – the report on which business to choose. Each assessment focus has four-mark bands, and work was seen that spanned all four bands. Candidates were able to identify key data and almost all carried out financial calculations of some sort to justify the choice made. Where work was lacking was in the assessment focus linked to the identification of resources. This point will be covered in more detail later.

The second activity however was not answered as well. Some candidates clearly ran out of time. Candidates have three hours to read the case study data, carry out some analysis, write up their report and then produce a summary pitch in the form of a presentation, in this case, to the new entrepreneur. In future series, it is

anticipated that candidates will be more familiar with the demands of the test and will manage their time more effectively. Some candidates provided one or two basic slides confirming the decision without providing any justification, whilst others simply copied the work from their report into the speakers' notes for the presentation. These candidates did not therefore demonstrate selection of appropriate evidence. Finally, a small number of candidates misunderstood the purpose of the presentation and rather than make a pitch to the entrepreneur, identified how they would do a pitch if they had to.

Activity 1: The report

For this first activity, candidates are required to use the information provided, and prepare a report to Katie about the two options she is considering.

The report must address both options and include:

- rationales supported by data
- consideration of risks
- key factors and risks
- recommendations on the option candidates feel to be most appropriate.

The report should be presented in a way that could be read by Katie.

Assessment focus 1: Information/data selection and interpretation.

Most candidates were able to take some of the information from the case study and apply it in some form to gain at least band 1 marks. Too many simply retyped the information from the case study and therefore failed to get out of band 1.

An example of this type of use of data is provided below.

Current market information and trends.

Segment	Number of business
Hairdressers (male/female customers)	53
Gentleman's barber shops	4
Beauty, spas, nails	24
total	81

This data shows the number of business that taken over the UK hairdressing and beauty industry. The industry comprises of 53 hairdressers, 4 Gentleman's barber shops, 24 beauty/spa/nails, in total this number adds up to 81.

Market trend

Men in this day and age are getting haircut more frequently. They have become increasingly confident and have given the industry a boost. Around 9 out of 10 salons have reported an increase in revenue from male clients in the last year. This is all due to styles being creative and individualistic, with a focus on maintenance. Not only that, haircuts are now £12 in Katie's home town, which is £4 cheaper than in 2012 which they were £16.

To achieve higher marks, candidates needed to use the data to support their analysis and decisions. A good example is shown below.

2. Market demands

2.1 Although the beauty industry have continued to see a downward trend on their sales revenue by 0.3% each year, indicating the the demand has also reduced, the hairdressing and barbering sector has not copied this. Which should give Katie confidence that the demand for barbering will not fall in the near future therefore not possessing any risk that her business may fail regarding this. Evidence for this steady increase of demand are that nine out of 10 salons has seen an increase in their sales revenue, which Katie could fall into this category if she chooses to open her own salon.

2.2 Men are employing a higher interest in their grooming habits as their are more and more products and creative styles available to them. This backs up the evidence that the market is increasing.

2.3 Due to the decrease in price for haircuts in Katie's hometown, by £4 since 2012, this also is an indication that both the supply and demand for barbering has risen. As if there's more competition against other salons the prices will be low and due to the increased demand the salons can survive as they are still exceeding their previous revenue.

2.4 All of the above points will not affect Katie badly whether or not she opens her own salon or rents a chair, as the demand is not forecast to decrease in the foreseeable future as everyone needs their hair cutting.

Information provided in the case study included the trend data on males using grooming products. This could have been used to justify the opening of a new gentleman's hairdressing business with additional sales of products to add value to the business.

The data on location, near to other shops and a university etc. could have been used to justify opening of the entrepreneurs' own business. Footfall would be high but candidates may also have considered that university students may not have the disposable income to use the business on a regular basis. Data on numbers and types of competition was used well by candidates who suggested that the target market – males – should prove to be a successful choice for the entrepreneur given there was only one competitor within a mile of the proposed location. More able candidates also made comment that unisex salons would also be potential competitors and that some customers would prove reluctant to move from their current hairdresser. Very few candidates were able to identify that the accounts data included a provision for two stylists for option 1.

Finally, all candidates were able to use the costs and revenue data to provide some financial analysis, either a cash flow forecast or an income statement.

Assessment focus 2: Implications for resources based on decisions made.

This assessment focus did not perform as well as hoped. Most candidates were able to use the case study and discuss the need for a suitable location and some went on to discuss the equipment that would be required. Again too many candidates retyped the information from the case study but did not go on to say how this may impact on the business or owner. These candidates were therefore limited to band 1/2 marks.

A number of candidates failed to consider the implications for human resources. The financial data provided stated that £40,000 had been included for wages. The case study also gave costs for fully experienced and trainee stylists so candidates should have commented on how the business could provide the right number and quality of staff to achieve the predicted sales revenues.

Finally, many candidates failed to identify that the start-up costs may require some form of loan, although some did consider and discuss the possibility of taking on a partner to help cover these costs.

The following is a good example of candidate work where consideration has been given to lease/hire of equipment rather than purchase, and of how the start-up capital could be funded through a loan. The work also looks at the alternatives of renting the chair and so also contributes to the marks for assessment focus 3.

Katie will need a large amount of start-up as she needs to buy chairs, cash registers, sofas etc. (See fig 1 for full list) and this all adds up to £14,050 which means she needs about £15,000 in start-up capital. She also needs £1,550 for start-up for her 2nd option, (See fig 1 for list). Her projected figures add up nicely (see fig 2 for cash flow) and she is left with £26,474 in profit at the end of each year. If Katie does not have the £15,000 start-up she needs, she could get a bank loan, to help her pay for the equipment and then pay it back over 5 years, this could not be too hard as Katie has £26,474 left at the end of the year, so paying a sum every month would not matter. She could also hire purchase which is where you pay for it until the whole amount is paid and then you own it or lease equipment which means she pays for the item/equipment but never owns it, and with a lease it gets exchanged for a new one every so often. However, if she goes for renting a chair, she only needs £1,550 for start-up and estimates she will make £36,000 sales revenue with the owner of the salon taking 50%. If the owner takes 50% this leaves Katie with £16,450 for her own wages after taking out the start-up costs, this is less than a trained stylist gets on

Assessment focus 3: Financial Forecasts.

Most candidates were able to use the financial data to calculate at least total start-up costs, revenues and inflows/outflows for both options. They were then able to use these calculations to make a decision about which option would give the best returns. Most candidates calculated net profits, although some made the mistake of taking start-up

costs from the net profit and therefore the use of terminology was not always accurate.

A large number of candidates produced a cash flow forecast either monthly or for the year. Some also produced a second version of the cash flow having made some form of adjustment such as factoring in a start-up loan, or showing what would happen if the business was able to agree trade credit with its suppliers. These calculations were then used to help justify the final choice of business option.

From the data provided in the case study, learners could also have calculated net profit margin and return on capital employed for both options, and break-even for option 1. A few candidates attempted to calculate payback or ARR which was not possible from the data provided. Finally, a small number of candidates chose not to use any of the financial data at all when making their decision, and this restricted their overall mark.

Below is an example of a cash flow forecast produced by candidates.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Inflows												
Goods	£500.00	£500.00	£500.00	£500.00	£500.00	£500.00	£500.00	£500.00	£500.00	£500.00	£500.00	£500.00
Service	£8,000.00	£8,000.00	£8,000.00	£8,000.00	£8,000.00	£8,000.00	£8,000.00	£8,000.00	£8,000.00	£8,000.00	£8,000.00	£8,000.00
Total Inflows	£8,500.00	£8,500.00	£8,500.00	£8,500.00	£8,500.00	£8,500.00	£8,500.00	£8,500.00	£8,500.00	£8,500.00	£8,500.00	£8,500.00
Outflows												
Start up Cost	£14,050.00											
Wages	£3,333.33	£3,333.33	£3,333.33	£3,333.33	£3,333.33	£3,333.33	£3,333.33	£3,333.33	£3,333.33	£3,333.33	£3,333.33	£3,333.33
rent	£1,250.00	£1,250.00	£1,250.00	£1,250.00	£1,250.00	£1,250.00	£1,250.00	£1,250.00	£1,250.00	£1,250.00	£1,250.00	£1,250.00
Business rates	£206.33	£206.33	£206.33	£206.33	£206.33	£206.33	£206.33	£206.33	£206.33	£206.33	£206.33	£206.33
Utilities	£100.00	£100.00	£100.00	£100.00	£100.00	£100.00	£100.00	£100.00	£100.00	£100.00	£100.00	£100.00
Other, insurance and promotion	£66.66	£66.66	£66.66	£66.66	£66.66	£66.66	£66.66	£66.66	£66.66	£66.66	£66.66	£66.66
Goods to sell	£166.66	£166.66	£166.66	£166.66	£166.66	£166.66	£166.66	£166.66	£166.66	£166.66	£166.66	£166.66
Total Outflows	£19,172.98	£5,122.98	£5,122.98	£5,122.98	£5,122.98	£5,122.98	£5,122.98	£5,122.98	£5,122.98	£5,122.98	£5,122.98	£5,122.98
Net Cash	-£10,672.98	£3,377.02	£3,377.02	£3,377.02	£3,377.02	£3,377.02	£3,377.02	£3,377.02	£3,377.02	£3,377.02	£3,377.02	£3,377.02
Opening B	£0.00	-£10,672.98	-£7,295.96	-£3,918.94	-£541.92	£2,835.10	£6,212.12	£9,589.14	£12,966.16	£16,343.18	£19,720.20	£23,097.22
Closing B	-£10,672.98	-£7,295.96	-£3,918.94	-£541.92	£2,835.10	£6,212.12	£9,589.14	£12,966.16	£16,343.18	£19,720.20	£23,097.22	£26,474.24

The next most common approach to the financial forecasting was to attempt to produce an income statement. Some however chose to do this as a series of inflow/outflow tables and then do the calculations in a text paragraph at the end rather than use a typical income statement template.

INFLOWS	INFLOW AMOUNT (£)	
Annual sales from cutting/styling	96,000	
Hair/Shaving product sales	6,000	
Total Inflows		102,000

OUTFLOWS	OUTFLOWS AMOUNT (£)	
Wages	40,000	
Rent	15,000	
Bussiness Rates	2,476	
Utilities	1,200	
Other costs, insuarance and promotion	800	
Hair/Shaving products to sell	2,000	
Total Outflows		61,476

In option 1 the outflows are really high due to the fact that she has wages that amount for £40,000 and rent for £15,000 which is lower than option 2's rent but then option 2 allows Katie to have all the equipment included. For 3,000 more but that is still a much larger number compared to option 2. I then took the inflows away from the outflows to give me my profit. $£102,000 - £61,476 = £40,524$

I then took the profit number away from the start-up costs to give me my overall profit for the year. $40,524 - 14,050 = 26,474$

Assessment focus 4: Key factors, risk and alternative options.

This strand often had strong, well thought through key points. Candidates often rationalised the key factors and risks. The majority completed a SWOT and/or PESTLE analysis for this part of the report, whilst some others used a wider marketing mix 7P's analysis. A few used Porters 5 Forces or the 5 C analysis models, but in some cases this was generic or lacked detail. Many of these tools were completed in table format which prevented candidates from providing a full explanation of the key issues in context. Quite often, irrelevant, generic factors were discussed such as Brexit, without a development of how this would impact this particular business start-up.

Some candidates discussed key factors such as competition or demand, but then failed to include the key risks that are associated with each option. This omission limited the marks that could be awarded. The majority of work contained only a basic or limited justification of the choice of business to be started. In some cases, the justification was based purely on the amount of profit each option would achieve after one year, rather than include a range of other factors that had been provided in the case study.

Some candidates identified that the scenario did not tell us whether Katie had the necessary skills to run a business and queried whether she had previously been a mobile hairdresser. This could then be developed into a discussion on the risk involved if the owner lacks basic business or technical knowledge to run a business.

Some candidates compared option 1 and 2 and also provided an additional approach such as starting by renting a chair and developing her skills before opening her own business. This was identified as a way of reducing risk as well as giving the owner more time to obtain the capital required for option 1. There is no requirement in the activity for candidates to come up with their own alternative approach, but if they do so they

are credited for this.

Some candidates considered a number of sources of finance such as loans, overdrafts, using trade credit, borrowing money from family and friends, setting up as a partnership, and even selling shares as a ltd company. Better responses linked these sources to reducing the risks associated with starting your own business.

Very few candidates considered the risk from option 2, renting a chair, where someone else makes all the decisions. The cost and legal implications of hiring suitable staff was also poorly covered as was the risk from the target market having potentially low income. This latter point could have been further developed as most university students are in residence for only a part of the year, and thus may not provide a long term stable market.

Finally, the threat from well-established existing businesses with loyal customers could have been used to justify the second option of renting a chair. Very few candidates mentioned that there was only one chair in option two, compared to three in option one, although some did recognise the limit on future growth if she were to rent a chair.

Common discussion threads included competition, costs, gaps in the market, demand, convenience, footfall and passing trade, staff training and welfare, legislation, pricing strategies, disposable income, establishing customer loyalty, reputation, luxury goods, grooming trends, USPs, and promotional methods.

Only a few candidates discussed barriers to entry, skills shortages, apprenticeships, direct and indirect competition, contingency planning, and additional revenue streams.

Assessment focus 5: Supported decision making.

This strand was quite diverse. Most of the candidates came to a decision but some omitted the decision in the report but referred to a particular option in the presentation.

Some decisions made were very simplistic such as 'Option 1 is better for Katie as she will be able to make more money/profit'. This approach did not allow candidates to go past Band 1. Other candidates were able to present a convincing decision with evidence of justification which allowed them to reach Band 3.

Better candidates weighed up the options throughout the report before coming to a final conclusion. Very few reached mark band 4 as the work lacked comprehensive coverage and clear links to the case study.

An example of a good final conclusion to the report is shown below. It should be emphasized that justification for the decision to choose option 1 had been made consistently throughout the report, not just in this final section.

Evaluation:

Overall I think that Katie should open up her own store, as I think this is the best option for her. I have looked at both options given to me about Katie the store and the chair. I think she should open up a store because although it may be more expensive, this would mean that Katie would have full control of the reins and what happens in the business, for example Katie can have her own rules, and decorate the business however she would like. She would also have her own customers whom are loyal and repeat purchase all of which are independent factors, and depending on Katie's personality independence may appeal to her and she may not be able to survive under someone else's rules. Looking and comparing each options Cash flow forecast I have found that the store would generate way more income than the chair although it has way more outflows the inflows are also higher as Katie is expecting £96,000 in the first year for service sales. This would give Katie a higher closing

balance at the end of the year and would all be for Katie and won't have to share it or pay fees this would enable Katie to make more of a successful business which I know is her goal as the business would be her own, looking at a cash flow forecast will identify any problems coming her way, ready for her to overcome it.

It is also the best option because it is appealing to the target market, the location makes it easy for the business professionals and students to get to the barbers quicker and easier and it is near the offices and the university. This location proposed will contribute to the success of the business as it will get all the target market and the passer by (hopefully) therefore gaining more revenue.

AF6: Presentation and structure

Generally, the reports were well presented, logical and easy to follow. Most of the work contained headings, subheadings and clear paragraphs. Some used formal report structure with paragraphs numbering and an index sheet. Some reports contained errors in the body of the report, but few were obtrusive. Some candidates lost marks in this assessment focus for the lack of use of relevant business principles and business management terminology.

Activity 2: The presentation

For this second activity, candidates have to use appropriate software, to prepare a presentation to Katie.

The presentation should:

- summarise the recommendations made in the report
- give a rationale for the recommendations made

The report must be accompanied by speaker's notes or a script

AF7: Business proposal overview

Most candidates were able to refer to the data used in their report and the conclusion, and make some points that outlined the business idea. In a number of cases, the presentation was not a summary of the business proposal but was a comparison of both options.

Some candidates failed to select the appropriate information from their report, and gave a very brief outline. It is possible that these errors were due to the candidates running short of time having spent too long producing the report in activity 1.

AF8: Reference to costs/finance, key factors/risks

Many candidates attempted to justify their business proposal, but many of the presentations were not in the form of a business pitch but rather recommendations and a list of 'thinking points' and ideas for development going forward. This may be due to the candidates misreading the requirements of the brief and making recommendations for improvement rather than a recommendation on the best option for Katie e.g. she should do more marketing, lower her prices, or do some market research.

AF9: Presentation design and structure

Most of the candidates created slides with a coherent structure and some appropriate speaker notes. Many used bullet points and kept slides clear and easy to read, leading to a professional appearance.

Some candidates failed to differentiate between providing speaker notes and an essay.

A few presentations failed to provide speaker notes, whilst others simply copied large sections of the report and pasted these into the speaker notes section of the presentation.

Not all candidates added clear headings to slides.

Summary

- Candidates should read the case study to ensure they fully understand the data being provided.
- The set task will identify how marks are awarded for activity 1 and candidates should ensure they cover all of these points if they are to avoid losing marks. Some may wish to use this information as sub headings for the report.
- AF1 marks will not be awarded for simply copying out all of the data provided in the case study. Candidates need to interpret this data and use it to help justify any decisions made.
- Key resources required for the business option chosen should be identified and discussed.
- Financial forecasts will need to be completed, and these will vary depending on the activity and the data provided. These forecasts should form part of the decision-making process but remember there are other key factors to consider.
- AF 4: Key factors, risks and options is the strand with the most marks available. Candidates should ensure they cover all parts of the assessment focus in the report, not simply key factors or risks.
- AF4 is the part of the report where marks are awarded for the use of decisions making tools such as SWOT and PESTLE.
- There must be a final decision made and this should be justified throughout the report and also in a concluding section of the report.
- Activity 2 will require candidates to provide a summary of the decision made in the report and a rationale outlining the decision making. There is no requirement for candidates to provide alternative choices.
- Remember there is sample marked learner work available for use in teaching and assessment. This can be found on the BTEC Nationals qualification webpage located [here](#)

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