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BUSINESS

Paper 9609/12
Short Answer and Essays

Key messages

- While there was in general evidence of sound knowledge and understanding of business concepts over the full range of the syllabus, the opportunity to develop and analyse this knowledge was not always taken. The essay questions in ***Section B*** require evidence that candidates recognise the implications and impacts of the relevant knowledge points identified and acknowledged. The ability to develop and analyse these points of information and understanding is a critical skill. Too often this skill was not demonstrated sufficiently.
- Candidates also need to ensure in their essay writing that they pay enough attention to the skills of drawing together discussion points and arguments and weighing up analysis to arrive at supported and justified judgements or conclusions. It is these skills that merit the award of evaluation marks.

General comments.

- Most candidates adopted sound approaches in answer to the questions on this paper. The management of time seemed to be well under control and the rubric instructions were followed almost without exception.
- In ***Section A*** of the paper (particularly in relation to **Questions 1(b)**, **2(b),** and **4(b)**) some candidates' responses to questions were statements rather than explanations. Explanation requires more than a relevant descriptive statement of a business concept or issue; some limited development and/or exemplification is also required.
- Candidates need to spend time thinking carefully about the business context of a question to ensure that any application of a business concept or situation is relevant. This again is especially significant for the essay questions. A number of answers to **Question 7(b)** used the context of shoe production rather than the required context of shoe retailing. This misinterpretation resulted in the loss of a significant number of marks for some candidates.

Comments on specific questions

Section A

Question 1

(a) Most candidates answered this question with confidence. Strong answers defined a product life cycle as the pattern of sales of a product over its life span and indicated specific stages through which a typical product might progress. The concept was also recognised as one of the important means of product portfolio analysis. A minority of answers gave only a partial definition referring to product stages but giving no accurate examples of such stages.

(b) Confident answers presented sound examples of product extension strategies a business might initiate. The most common examples given included adding more features to a product, reducing the price of a product, and finding new market segments for a product. Weaker answers while mentioning extension strategies failed to develop their proposals with any examples or development.

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Question 2

(a) This potentially challenging question was well answered by many candidates. Definitions were given which referred to the comprehensive nature of a diverse workforce. Diverse characteristics such as race, ethnicity, gender, age, religion, culture, and sexuality were referenced to define diversity in terms of workforces that supported and valued difference. Weaker answers failed to recognise the comprehensive nature of the term in a business environment and limited definitions to a narrow focus on the variety of skills and experiences to be found in the workforce of a business.

(b) Having given a sound and comprehensive definition of diversity in **part (a)**, strong answers then went on to give relevant examples of benefits that might well arise in a business that develops a diverse workforce. The most common examples given included: the variety and richness of employee contributions in the work place, the reputational advantage to the business in the eyes of consumers, and the attractiveness of a diverse workforce to new applicants. More limited responses focussed only on issues such as the variety of skills and the possibility of strong teamwork.

Question 3

Strong answers generally sought to define the terms 'trade receivables and trade payables' before explaining how they might be effectively managed in order to improve the cash flow of a business. Such definitions (debtors who have bought goods on credit, and creditors to whom accounts are due) provided opportunities for answers to address the ways in which these payments could/should be managed to improve the cash flow situation. Better management proposals included more efficient credit control measures such as requiring more prompt payment from debtors and more delayed payments to creditors. Sound answers differentiated between the potential short term and long term consequences of such actions and identified the danger of damaging relationships between businesses and their customers and suppliers. Weaker answers did not establish a strong link between cash flow and managing trade receivables and trade payables and often did not give a balanced coverage of debtors and creditors.

Question 4

(a) The term 'external economies of scale' proved challenging to many candidates. While economies of scale were generally well defined (cost benefits associated with scale increases) answers were less impressive in defining 'external'. Candidates were often unable to give examples to illustrate an economy of scale resulting essentially from forces outside of the control of a business or external to that business. Relevant examples that were given included reference to improved transport, improved infrastructure, and the availability of specialist suppliers in the external environment.

(b) The responses to this question on internal economies of scale were generally much stronger than those relating to external economies in **part (a)**. Strong answers often focussed particularly on purchasing and technical internal economies of scale although financial, marketing, and managerial economies were also confidently explained. A significant number of answers presented little more than brief descriptions of two internal economies of scale and failed to present sound explanatory examples to access the full range of marks available.

Section B

Question 5

(a) **Question 5** was answered by just a small minority of candidates. Those that did answer this question were able to identify and present a clear understanding of how different methods can be used to measure the size of a business. Methods presented included number of employees, capital employed, market share, market capitalization, and revenue generated. Many answers simply listed the different methods with only limited analysis of the relative advantages of each. The extensive descriptive information about each method tended to leave little room for analytical comment with the result that an analysis of the advantages of using one or more of the methods was at best implicit. Strong responses created room for a more explicit analysis of the advantages of using some methods (with reference to limitations) or a combination of methods and referenced the importance of comparing like for like markets and industries.

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(b) This question asked for a discussion of whether a partnership might be the best legal structure for an accountancy business. Strong answers initially reviewed the strengths and weaknesses of partnerships as types of business organisation and then sought to apply a partnership organisational form to some assumed characteristic features of an accountancy business. Such features as personal service, financial skills, and the requirement for confidentiality were applied to a partnership business model and a judgement was made as to the appropriateness of the partnership form. Weaker answers did not analyse much more than the strengths and weaknesses of partnerships and were unable to fully consider the context of an accountancy business.

Question 6

This was not a popular question and very few candidates attempted this question. Strong answers reviewed and assessed the marketing options available to smartphone retailers and placed internet marketing in the context of those options. Such an approach allowed candidates to analyse the strengths and limitations of different marketing methods and to assess the value of an internet approach against more traditional methods. This ongoing analysis created argument and evidence for a strong consideration of how essential internet marketing might be for a smartphone retailer. These strong answers included observations and evaluative comments relating to such issues as the nature of the product, the maturity of the market, and the extent and type of competition. Weaker answers presented little evaluative comment and failed to address the key assertion in the question-the assumption that success for a smartphone retailer is very much dependent on internet marketing.

Question 7

(a) **Question 7** was the overwhelming choice of candidates on this paper. A significant number of answers presented too much descriptive information on methods of motivation which left too little room for relevant analysis of benefits resulting from well-motivated employees. Strong answers led with a succinct definition of employee motivation and then focussed on some specific business benefits resulting from motivated employees. Typical benefits included reference to high productivity, low labour turnover, and low absenteeism. Some answers simply listed benefits such as these with little comment or analysis. To fully access the analysis marks answers need to comment in some detail on the consequences, impacts and relationships of these benefits.

(b) Strong answers recognised that in order to fully access the evaluation marks for this question an explicit response is required to the question of whether a salary is the ‘best’ payment method to motivate the employees of a shoe retailer. Such a response requires some sound analysis of the strengths and limitations of alternative payment methods including the option of paying a salary, all related to the business context of the question. It was here that some candidates created problems for themselves. Through either a misreading or a misunderstanding of the business context of this question some candidates interpreted the context to be a shoe production process rather than a shoe retailing process. Clearly the application and appropriateness of payment methods are likely to be very different if production rather than selling is assumed. Strong answers examined the alternatives to a salary payment, weighed up the evidence and analysis and came to an explicit judgement. Many answers however identified and analysed various alternative bundles of possible payment methods but failed to draw together the implications and consequences to form a coherent and supported conclusion.

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Paper 9609/22
Data Response

Key messages

- A question is an instruction to a candidate about how to respond in the examination. Careful note should be made of the command word used so that the response can be tailored to what is required.
  - 'Define' is a command word that requires a clear and precise definition of a specification term. Candidates do not require examples and the definition should cover all the elements of the term.
  - 'Explain' requires a higher skill than a definition and candidates are required to apply their knowledge either to the data (**Questions 1(b)(ii)** and **2(b)(ii)**) or to their study of business in general.
  - 'Calculate' only requires the final answer to be given, but candidates take a risk if this is all they write on the examination paper. Showing the stages of the calculation and how the candidate arrived at their answer allows examiners to award partial marks when appropriate.
  - 'Analyse' is a skill that requires candidates to show a coherent chain of reasoning with the causes and effects of something. On this examination there is always a need to use the context of the data, so that the analytical chain is specifically applied to the business in the data.
  - Evaluation questions can use multiple command words and in this examination these were 'recommend and justify' and 'discuss'. Evaluation requires candidates to put forward arguments and then weigh these up, usually in a conclusion. It is always a good idea for candidates to come to a judgement, especially when asked to make a recommendation. For **Question 1(d)** good responses always made a judgement over either Option 1 or Option 2 and in **Question 2(d)** most good responses made a judgement over a particular source of finance.
- Content is king on this examination and the data is there to allow candidates to apply their knowledge, analysis and evaluation to the data given. Some candidates ignored the context, and this always restricts the mark available. If a question mentions a specific stakeholder or the name of the business, then it must be applied.

General comments

Candidates engaged well with both contexts and were able to apply their knowledge to the data. There did not appear to be many time-issues with candidates unable to finish the examination paper, but some candidates who spent too long on the higher mark questions had to rush **Question 2(d)**.

When candidates are asked evaluative questions (**1(d)** and **2(d)**) they must use the context to identify the most appropriate arguments as opposed to listing as many as they can remember. For example, on **Question 1(d)** there are many arguments for each option, however some of the arguments are more relevant and convincing than others.

Comments on specific questions

Question 1

(a) (i) Most candidates provided a good answer to this question and understood that job production involved 'one-off' customisable products and services. A few candidates obviously mixed up job production with either batch or flow production. A 'define' question requires a straightforward answer that is precise and correct. Some candidates wasted time giving examples and writing more than was needed for this question.

(ii) Opportunity cost has a specific meaning that many candidates explained quickly and accurately. However, some candidates had slightly confused explanations that did not fully explain the concept. An example can be a good way to show good understanding, but simply repeating that Bob faces an opportunity cost does not show any skill as it is stated in the data.

(b)(i) A reasonably well done calculation and most candidates knew the formula for profit margin. Where candidates got the wrong answer, it was usually because they inverted the formula (sales revenue/profit) or made a mistake, such as not turning the answer into a percentage.

A few candidates did not attempt a calculation, but instead assumed a 50% mark up would lead to 50% profit margin. This shows a fundamental misunderstanding between the two processes.

(ii) Candidates usually struggle with the difference between profitability and profit and this question was no exception to that rule. There are, in essence, two ways to increase profitability; decrease costs and maintain revenue or increase revenue and maintain costs. Most candidates could identify ways to decrease costs or increase revenue but often failed to explain how this would increase profitability. However, as this is a two-mark question, examiners were instructed, on this occasion, to allow any reasonable answer which could increase profitability. Centres should be aware that profitability questions in the future are unlikely to be handled so generously.

(c) Most candidates knew a great deal about cost-based pricing and spent a large amount of time explaining the concept, sometimes in great detail. This led to long, usually introductory paragraphs which added little to the mark awarded. Candidates needed to spend their time analysing the benefits, which usually showed good understanding anyway. A brief definition to start off an answer is not a bad way to begin an answer but writing more where the skill is 'analyse' or 'evaluate' is a waste of precious time. Those candidates who quickly started to analyse in context often found they spent their time more usefully and had more time for the second question on the examination.

There are many benefits of using cost-based pricing, but not all were contextual. The best responses chose benefits which could be specifically applied to Bob, such as the fact that Bob works on his own and needs an easy way to price his products or the fact that Bob makes customisable furniture and therefore each piece is different and may require a different price.

(d) There are often 'recommend and justify' questions on this paper and candidates seem to like the chance to use the data and argue for different options.

A recommendation requires a balanced argument of both the options to justify any recommendation given. Some candidates only focussed on one of the options which does not allow a full justification of the option. The best responses picked the most obvious reasons why Bob should choose Option 1 and then the most obvious reasons why Bob should choose Option 2. To gain full marks only one piece of developed analysis was required for each option and some candidates spent too long on each option, leaving relatively little time to justify their choice at the end.

Good evaluation makes a clear judgement and then justifies that judgement by developing the rationale within the context of the business. Candidate who could analyse both options and the go on to justify a recommendation were rewarded with high marks.

Question 2

(a)(i) Market segment is a term that most candidates understood but was sometimes confused with the term 'target market'. Many candidates did not go on define the idea that a segment will include potential customers with similar characteristics. This was essential for a full and complete answer.

(ii) When candidates are asked to explain a term, it is important that the explanation covers all the elements of that term. In this case most candidates identified the 'start-up' element of the term but often failed to fully explain capital as money or finance needed. Likewise, terms should not be explained in a tautological way. In this case, some candidates explained start-up capital as the finance needed to start-up a business. This does not explain the 'start-up' element

(b) (i) Most candidates correctly calculated the break-even level of sales. Some candidates went a step further to calculate the sales revenue (and costs) at this level. This was unnecessary and candidates should be careful to answer the question set. Where candidates made a mistake, it was often due to a calculation error. By clearly showing their working it was often possible to award one mark. However, candidates who did not show their working risked zero marks if their answer was wrong.

(ii) There are many factors which influence demand. The key to success in this question was to make sure the factors were in context. Many candidates explained factors without thinking about the most applicable ones to Joe's products. Contextual pointes such as the weather and the taste of the smoothie were more likely to gain application marks than generic points which might be difficult to apply to the scenario.

(c) This question specifically asked about primary market research techniques and candidates were expected to show their knowledge of the techniques. However, some candidates spent time in the examination explaining the difference between primary and secondary market research. This was unnecessary and did not contribute to the overall mark because it was not what the question asked.

Whilst any primary market research technique could be applicable, it was easier for candidates to analyse techniques such as focus groups where potential customers could taste a smoothie and then feedback to Joe. Candidates should always try to think about the most appropriate techniques as opposed to the first they can remember.

(d) Candidates tend to write a great deal when given a sources of finance question and often want to show how many sources they can describe. However, a good response only requires a candidate to analyse two sources and then come to an evaluative conclusion about the chosen sources. Whilst good analysis of more sources will not disadvantage a candidate, the likelihood is that candidates do not spend enough time on the most important sources and end up writing a list. Candidates will gain higher marks and provide better answers by focussing on the most appropriate sources of finance and giving in-depth and in-context analysis.

Candidates could use any sources of finance to answer this question, but some were easier to analyse in context than others. For example, as a new business Joe might look to a government grant to support his entrepreneurial activities. By approaching the question and asking what is most appropriate for Joe, candidates are likely to give better answers.

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Paper 9609/32
Case Study

Key messages

- Candidates should avoid simply repeating data from the case. They should aim to use the data to inform their answer.
- Candidates frequently focus on the wrong issues or on too many issues. This results in ineffective analysis. Good analysis links together cause and effect.
- Consider carefully the meaning of key business terms in each question.

General comments

Candidates showed good knowledge of most of the business concepts that were questioned. However, there were areas of weakness and in particular workforce planning was not understood. Many candidates did not know the scope of workforce planning believing that it included much broader strategies relating to human resource management. Corporate planning was another topic that was not well understood. Although most candidates demonstrated skills of knowledge, application and analysis, the development of evaluative comment was frequently very limited and generic. However, there were also many candidates able to provide highly analytical and evaluative answers to the questions based on the case material.

Comments on specific questions

Section A

Question 1

Most candidates defined interest rates as the cost of borrowing and many recognised that interest rate changes are used by government to control aggregate demand in the economy. This knowledge provided a foundation for candidates to analyse the likely impact of interest rate changes on FE. Generic analysis commented that if interest rates increased the demand for FE's products was likely to decline leading to a fall in profits or that FE might reduce investment and therefore growth would be lower. Many candidates developed strong lines of reasoning in context. For example, analysing the effect of the expected increase in interest rates on the strategic decision making of FE regarding the potential takeover of Southvolt or building a new factory in country M. Others considered how a 2% rise in interest would affect the cost of servicing FE's $800 m of debt finance and therefore profit for the year. Context was also given by noting the cost of FE's wind turbines and considering the need for households to take loans to purchase them. A few candidates also understood the impact of increasing interest rates on the exchange rate developing some excellent analysis of how FE might be affected.

There was evidence that some candidates were unsure of the role of interest rates and this led to confusion about the focus of their answers. The most common error was to discuss, at length, the possible ending of government subsidies to energy companies.

Question 2

(a) A high proportion of candidates were familiar with the calculation of capacity utilisation and were able to identify the necessary data from the case. Most candidates followed good practise and stated the formula as part of their answer. A few candidates did not include the percentage sign in their answer and therefore did not get full marks. A relatively small number of candidates incorrectly identified the maximum capacity of the factory by including the plans for its expansion in their calculation.

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(b) Candidates found this a more challenging calculation. Some candidates included the capital cost of expanding the factory within their calculation of unit cost. This was not necessary as the data included allocated fixed costs per tower. A number of candidates correctly calculated the unit cost of towers produced by expanding the factory and outsourcing but did not calculate the difference in unit cost. Other candidates did not give appropriate units in their answers, i.e. the difference in unit costs was $0.3 m not $0.3.

(c) Typically, candidates defined outsourcing in their introduction. Most candidates also demonstrated some understanding of the benefits and drawbacks of outsourcing and were able to gain full marks for knowledge. Nearly all candidates used their results from **Questions 2(a)** and **(b)** in their answer and frequently the difference in unit cost was included in making a judgement. More sophisticated answers recognised that other factors should be considered, including the flexibility provided by outsourcing versus the longer term cost saving and control of quality offered by the factory expansion. Weighting arguments was one way in which answers were differentiated. For example, some candidates emphasised the significance of controlling quality in the decision as FE's reputation was built on providing a premium product. Others focused on flexibility and timescale as critical factors arguing that FE needed an increase in capacity quickly and that outsourcing reduced the risk of FE being left with underutilised capacity if the factory expansion was chosen.

Question 3

Although the majority of candidates understood what a marketing strategy involved there was a tendency to focus on the different elements of the marketing mix without proposing a coherent strategy. Many candidates also repeated case material about FE's current marketing approach without showing understanding of whether it was appropriate for the household market. Where candidates commented on all four elements of the marketing mix it tended to reduce the development of analysis in the answer. Analysis was weak at times, and needed to be developed to consider how suggested changes would lead to an improvement in market share, not just listing the different types of adverting they could use. Some students didn't develop their answers in enough detail. Better answers analysed the weaknesses of FE's current marketing and used that as a springboard for developing an integrated marketing strategy including comment on at least two elements of the marketing mix. It is often better to focus on a smaller number of key issues rather than trying to cover all possible issues.

Most candidates gained few if any marks for evaluation. Often there was no attempt to evaluate at all. Better answers made evaluative comments that considered the likely price sensitivity of households, the current lack of focus of FE's promotion on the target market and whether FE had the budget available to make the necessary changes.

Question 4

(a) (i) Candidates tended to score either no marks or two marks depending on whether they knew the equation. Those that correctly stated the formula frequently used the correct data from the case to calculate inventory turnover accurately. Some candidates expressed the inventory turnover in days rather than in times per year.

(ii) Around 7% of candidates provided no answer to this question. The majority of candidates correctly identified the gearing formula. However, many candidates were uncertain as to how to calculate capital employed missing one or two of the required elements from the text.

(iii) The majority of candidates recalled the formula for the current ratio and correctly identified what to include in current assets and current liabilities.

(b) Candidates found it difficult to articulate the usefulness of ratio analysis to FE's managers when making decisions. Many candidates were able to identify a range of ratios and explain what each ratio measured. However, there was a need to use that understanding to analyse how this would help make decisions. Those candidates able to develop relevant analysis typically considered how knowledge of gearing could be important in making decisions about how to finance FE's expansion plans. Candidates used their gearing result to argue that FE should consider using further debt finance for one of the two strategies being considered. Recognition of the quantitative nature of ratio analysis led to some candidates identifying the limitations of just using ratios to make decisions and this provided an element of evaluation.

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Question 5

This proved to be the most difficult question in ***Section A***. Candidates generally took the approach of starting their response by defining what was meant by 'workforce planning'. However, it was clear that many candidates did not understand the concept of workforce planning, focusing instead on the management and / or motivation of existing employees as the core of their response. Even those candidates who understood that workforce planning required FE to carry out a skills audit and identify the quantity and type of employees to meet future objectives often allowed their answers to drift into discussing methods of motivating employees. Candidates often showed application of knowledge and understanding by considering the expansion plans of FE which would require the recruitment of new employees. Other answers used appropriate examples from the case study in their response e.g. engineer skills and shortages, training time for engineers and the use of overtime. However, this understanding did not always lead to analysis and evaluation. Candidates often took the approach of considering the benefits of workforce planning to FE in order to gain some analysis marks. Some answers provided a more balanced approach recognising the limitations and other factors that could affect the success of workforce planning. The strongest answers recognised that as FE needed highly skilled workers and because training took three to five years, long-term workforce planning was essential to avoid skills shortages. Such comments led to the award of evaluation marks. On the whole, candidates scored mainly in the L1 band for evaluation as there was a lack of depth and focus on the link between workforce planning and FE's future success.

Section B

Question 6

Approximately three quarters of candidates chose to answer this question. Most candidates demonstrated knowledge of decision trees as a strategic choice technique. Many answers described at length what a decision tree shows and this was frequently accompanied by repeating the data from the appendix. These answers demonstrated limited understanding, application or analysis. Better answers used the decision tree to calculate the net returns from each option and understood that this provided a basis for making a decision. Evaluation was then linked to the quantitative nature of decision tree analysis and that the estimated outcomes could be compromised by the dynamic nature of the external environment.

Most answers also considered other techniques that should be used alongside decision tree analysis. However, there were answers that simply repeated the data in Appendix 2. Some candidates focused on which option FE should choose rather than focusing on the usefulness of decision tree analysis in comparison to other techniques.

Question 7

This was the less popular option for candidates and there is evidence that it was picked by those that, on average, had performed less well in ***Section A***. There were a range of possible approaches, all worthy of some reward, except where corporate planning was ignored completely. Most answers showed some understanding of what a corporate plan included. Many candidates took a very generalised approach, referring to aims and objectives and how these can give a business direction, including making sure that all departments are aware and working towards the same goals. Some candidates referred to FE's two strategic options and how corporate planning might help implementation of the chosen strategy. However, there was often a lack of reference to the text. Better answers observed that FE's move into the household market had not been properly planned or that as demand for renewable energy was increasing rapidly FE needed a detailed corporate plan to manage their expansion. Evaluation was often generic noting that planning does not automatically lead to success.