

# BUSINESS STUDIES

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Paper 9707/01  
Short Answer/Essay

## General comments

The paper proved to be accessible to most candidates, although many were significantly challenged by **Questions 2(a) and 2(b)** and to a lesser extent by **Question 4(b)**. The difficulty experienced with these particular questions arose from knowledge deficiency rather than from an inability to discuss or analyse the concepts.

The demonstration of the skill of application continues to improve, however there is still a general reluctance to adapt textbook learning to the specific contextual requirements of the questions asked. Candidates should not underestimate the value of such application and contextualisation in terms of marks to be awarded and in respect of opportunities and demands in the real world of business and management.

Candidates are reminded again that there is real opportunity in the essay questions in **Section B** to gain marks for evaluative comment. In fact 20% of the essay mark is awarded for evaluative comment. Few candidates were prepared or willing to comment for example on the respective value of different pricing strategies in **Question 5(b)**. In most instances information was given without any attempt to make a judgement using business objectives or market conditions as a measure of value.

The quality and use of language remains generally good as does the familiarity with business knowledge and concepts. (Note the concerns however with the knowledge base for **Questions 2(a), 2(b), and 4(b)**.)

Candidates in general continue to demonstrate an ability to discuss and analyse concepts and themes. However more attention needs to be paid to the application of such discussion and analysis to particular contexts made explicit in specific questions.

Candidates should continue to develop a capacity and capability for evaluative comment when they answer an essay question in **Section B** of the Paper.

## Comments on specific questions

### **Section A**

#### **Question 1**

- (a) Most responses distinguished clearly between assets and liabilities on a balance sheet and many gave the 'owned' and 'owed' definitions. Although examples were often used to illustrate the distinction, some candidates were rather distracted into a detailed discussion of the difference between the different types of assets and liabilities. Such answers wandered away from the question and proved costly in terms of marks and time lost.
- (b) Weaker responses commented that fixed assets lose value over time due to use. Such candidates managed to say that the passage of time would cause a fall in value but many went no further than this. Stronger responses often mentioned the principles of 'matching' and 'prudence' and thus the need to spread the cost of the asset over its useful life so that the value of the asset and the level of profit are more accurately presented in the published accounts. Relatively few scored the full 3 marks for knowing the application of the matching concept. This is not a difficult concept to understand or convey if an appropriate example is used.

### Question 2

- (a) Sadly the term 'product portfolio' was unknown to many candidates. Weak responses referred to the means of presenting the features of a product suggesting for example that it was a file containing product details. Only a minority of responses correctly referred to a product portfolio as a range of products which is often balanced as with an investment portfolio. Failure to understand the plurality associated with a product portfolio unfortunately created a weak platform for answering **Question 2(b)**.
- (b) Almost all candidates were able to explain the product life cycle concept but few were able to identify it as an analytical tool when used in conjunction with a product portfolio. Those candidates who accurately discussed the product life cycle concept but then attempted to apply it to a single product were restricted to one mark. More successful candidates were those who applied the product life cycle concept to a range of products in a portfolio distinguishing, for example, between a 'mature' product and a product in the 'introduction' stage of the PLC. Only a minority of candidates referred to the simultaneous existence of several products at different life stages and made use of the 'Boston Matrix' framework to illustrate.

### Question 3

There were some strong responses to this question and candidate knowledge of the main issues involved was excellent. Most responses explained that poor stock control can result in dissatisfied customers due to unfulfilled orders and increased costs due to the need for more storage space but were not always related to production. Stronger responses augmented such reasoning by relating the concept of opportunity cost in production, the benefits of JIT and/or the impact of effective stock control on the long-term reputation of the production manager's employers.

### Question 4

- (a) Most candidates gave confident responses to this question referring to layers of management and responsibility within a business organisation. Some diagrams were given to make explicit the concept of 'hierarchy'. A minority of weaker responses confused the concept with Maslow's Hierarchy of Needs.
- (b) The matrix organisational structure was not a familiar concept to many candidates. Some candidates made guesses in various directions and made rather general and ambiguous comments about efficiency and communication.

Stronger responses referred to specialists working together to minimise the disadvantages of departmentalism and project teams were also frequently mentioned and rewarded. Only a minority of candidates mentioned horizontal and vertical structures in a strong discussion of the matrix concept (often with a supporting diagram) suggesting a potential value for decision making and production processes.

## Section B

### Question 5

- (a) While most candidates were able to explain how a market-orientated approach takes customer tastes and preferences into account through research many fewer were able to relate the approach to the consumer goods market. This failure to contextualise the information restricted the marks awarded.

Most responses outlined the benefits of market orientation when compared to product orientation in terms of reducing the risks involved in new product development and increasing the likelihood of achieving sales. The best responses considered the changeable nature of the consumer goods market, its competitiveness, and the need to be in touch continually with customer needs and developing trends and adapting products/services accordingly. Appropriate examples (such as white goods) served to illustrate the benefits of market orientation and the critical role of market research.

- (b) Most candidates were able to identify several pricing strategies (notably penetration and skimming strategies) but failed to contextualise and evaluate as required in this question. Some candidates also confused pricing strategies (e.g. skimming) with pricing methods (e.g. cost-plus). The strongest responses concentrated on skimming and penetration strategies, comparing and contrasting the appropriateness of each in relation to the market (niche/mass) and/or the new product (technical/general).

#### Question 6

Delegation is a popular and well understood topic. However some candidates seemed to have developed a stock answer to this type of question without reading the specific requirements of this question. The context of an expanding firm was often either ignored or simply mentioned at the outset prior to a 'traditional response'.

Most candidates were able to discuss the advantages and disadvantages of delegation in some detail. It was the extent to which the discussion was contextualised that distinguished the strong from the weak. Often context was given consideration 'in passing' and had to be discerned/identified with care. The strongest responses presented a careful analysis of the implications of expansion in terms of the business' size, location(s) and human resource requirements and then reasoned on the increased need for delegation and the advantages and disadvantages of employing it in that context. Only a few candidates considered approaches/strategies management might adopt to anticipate and minimise the disadvantages. Once again relatively few candidates were able to attempt any evaluative comments on the risks and opportunities involved for an expanding business.

#### Question 7

- (a) This was not a popular question. However most of the candidates who chose this question demonstrated a strong familiarity with the subject matter.

This question was generally well handled. It was pleasing that most candidates could clearly distinguish Batch and Flow production and were able to consider, to some extent, the implications of the two methods. The best responses considered, in some detail, the impact of the two methods on finance and capital needs, worker morale/motivation, the market served and the ability of the business to meet precise customer requirements.

- (b) This was a challenging question for many candidates. Some candidates confined their answers to discussing the arguments for and against changing to flow production without using the investment appraisal techniques. Such answers were awarded few marks.

Most candidates displayed a knowledge of the meaning of both appraisal techniques and made some good conclusions but made little reference to the context of the question with very limited analysis and no evaluation. Strong answers described the techniques in the context of investment requirements for a change from Batch to Flow and then went on to comment on their usefulness. Such analytical and evaluative comment included references to such issues as the limitations of each technique used singly or in combination, and the value and significance of other qualitative factors in making such a significant investment decision.

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Paper 9707/02

Data Response

## General comments

Performance in this paper was consistent with previous November sittings, with more candidates able to contextualise their answers than happened several years ago. Evaluation still remains a problem, with few candidates unable to fully justify their recommendations within the context of the business in question. Calculations continue to cause problems for some candidates and there is often insufficient thought given to whether the answer makes sense or not. There was no evidence of difficulty understanding the data response material, nor of understanding the questions that were set. The quality of use of language remained high in most of the answers, although, at times, some candidates use business terms rather imprecisely such as confusing sales with profits, price with cost and so on. Most candidates answered all questions, and where candidates did have a problem with time, it was as a result of lack of effective time planning.

## Comments on specific questions

### Question 1

- (a) (i) Many candidates gained full marks through their explanation of sole trader, which seems to be a concept that is well understood. Weaker candidates tended to overlook the ownership dimension, by referring to “operated/managed by one person” while others would have improved their answers by mentioning the key feature of unlimited liability. A few candidates thought that liability was limited.
- (ii) Most candidates were able to state that democratic leadership involved participation by subordinates. Better answers either developed this briefly by referring to motivational benefits or contrasting it with autocratic leadership.
- (b) (i) Most candidates identified correctly the data from the case. A significant number used an inverted formula, obtaining the answer 0.25 instead of the correct answer of 4. It is important that candidates can remember these formulae correctly, and that they reflect on the meaningfulness of their answer. Such a significant change in demand is not going to lead to an answer that indicates an inelastic product. A few candidates incorrectly attempted to express elasticity as a percentage or in \$’s.
- (ii) Candidates were rewarded using the principle of the “own figure rule”, so that if their answer to (i) was, for example, 0.25 they were rewarded for a comment that the product was inelastic. The best answers commented on the figure they had calculated, which, if correct, demonstrated an elastic product, and then added that this indicated that a price reduction would lead to increased revenues (but not necessarily profits). A few answers commented generally on the concept of elasticity rather than the answer that they had obtained, and could only be rewarded marks in a limited way. A few candidates were confused following an assertion that “petrol” was probably inelastic, being a necessity for many, with the possibility that sales from an individual outlet might be elastic.

**Teaching tip:** It is important that candidates understand what elasticity means as well as how to calculate it. This would help avoid getting the formula the wrong way round and confusion over the units.

- (c) In some respects this question was answered well with candidates able to demonstrate understanding of some of the HRM issues but key pieces of “data” were overlooked by most candidates. In particular, the fact that the workforce were loyal and hardworking and that the two skilled mechanics would no longer continue in their present roles made for particularly difficult management of change decisions. Few candidates focused on this issue, preferring to concentrate their answers on the need for a new manager (and the recruitment and selection issues involved in that) and the increased workload and extra tasks for the sales staff. Pleasingly, most answers used some of the context, and most answers attempted to analyse by developing consequences of additional workloads, staffing needs and so on.
- (d) Most candidates recognised that “methods” of market research is a different concept than the actual information required, so most answers referred to different types of primary and secondary research. Some answers discussed successfully the information needed by developing this into how the information could be collected. Many answers were “generic” in the sense that they could be applied to almost any situation. This made it impossible, for candidates to demonstrate evaluation skills. The best answers made mention of the facts that Farad operated as a sole trader, limiting the finance and skills available for carrying out sophisticated research; that any sample for primary research was likely to be based on people living in the nearby housing estate; that secondary research might not be very helpful and that each of the various research methods might have limitations in terms of usefulness, accuracy and/or cost. Weaker candidates tended to simply list methods of primary and secondary research without analysing them in terms of their likely usefulness or relevance to Farad. This was particularly true of sampling methods. A small number of candidates interpreted this question as “Should Farad open the shop?”

## Question 2

- (a) (i) Generally answers to this question showed good understanding of sales revenue. Better answers stated that  $\text{Sales Revenue} = \text{Quantity} \times \text{Price}$ , and that this is not the same as profit. A few answers briefly developed the idea that it could be used for targets. A few candidates confused sales revenue with profit.
- (ii) A significant number of answers to this question were vague, based on the idea that somehow managers were “in charge”. The best answers briefly outlined the key functions of managers (planning, controlling, delegating and so on). Other answers briefly mentioned that managers were different from owners.
- (b) (i) Almost every candidate obtained the correct answer of 50%. Profit margins are clearly well understood by most candidates.
- (ii) The intention of this question was to get candidates to examine the figures behind the calculations. A few very good answers observed that the main reason why net profits had fallen was that wages had risen faster than sales. The likely reason for the fall in gross profits was a relative increase in the cost of goods sold. A great deal of time was spent by some candidates calculating the percentage changes in gross and net profits, and while this analysed the trends, it did not help with an explanation of the trends.

**Teaching tip:** Get candidates to think “behind” the figures that they have calculated. Formulae are intended to be management tools rather than mathematical exercises.

- (c) Many answers showed good understanding of quality control methods in a general sense, but these were only applied in a limited way to the context of Eldorado Restaurants. It has generally been the case that questions on quality control are often least well answered in context, with many answers being of a textbook nature. The best answers built on the quality problems that were identified in the text: inconsistency of performance between various restaurants, unclear authority between chefs and managers, recruitment difficulties in some restaurants, apparent lack of training. Having identified these symptoms, these candidates were able to develop solutions which became both appropriate and justified. The answer most anticipated by Examiners, but only seen in a few instances, was a benchmarking exercise between the least successful and most successful restaurants, with a subsequent sharing of ideas. Evaluation skills cannot be demonstrated on this paper through a general answer, but adopting the approach of analysing the cause of the problem and developing a practical solution is ideal for showing the higher level evaluation skill.

**Teaching Tip:** Quality Control can usefully be developed through practical solutions to “real” problems as well as through a more theoretical approach.

- (d) Marketing questions inevitably lead to candidates coming up with lots of “good ideas” and this proved to be the case with this question. It is very important that these good ideas are developed in terms of the situation that is presented in the data. So, for example, the many candidates who suggested that advertising on TV was necessary for the new restaurant needed to discuss whether this was an appropriate way of attracting travelling passengers and airport workers. The best answers developed the key differences between the existing restaurants (loyal, “well off” customers who demanded high quality and luxury surroundings) and the new restaurant (transient customers and lower income airport workers who want food rather than an experience, for example) and then developed those differences in terms of a new approach to marketing, such as a change in product (fast food was often suggested), prices (for lower income workers), promotion (there is none for the existing restaurants), convenience and so on. Most answers treated the marketing mix in a general way, and then added lots of “good ideas” without any real justification or relevance to the situation. Many answers interpreted “place” as the location of the restaurant rather than the intended interpretation of its role in the channel of distribution. In this context, the location of the restaurant is actually part of the product package that is offered.

**Teaching Tip:** When “brainstorming” good ideas it is always useful to evaluate the relevance of those ideas to a given situation.

# BUSINESS STUDIES

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Paper 9707/03

Case Study

## General comments

This case study context proved to be very accessible to the great majority of candidates. There were no errors of misinterpretation of either the text or of the numerical appendices. Very few scripts did not contain at least an attempt to answer all of the questions so the subject areas covered by the questions were clearly mainstream topics that candidates had been taught or read about. The length of many of the scripts was truly impressive although Examiners are seeking quality of response and some of the most successful candidates did not necessarily write incredibly long answers. There seemed to be no major time constraint on this paper so it is a thorough and challenging test of Business Studies subject knowledge and understanding and not just an exercise in time management. Examiners would like to congratulate the increasing number of candidates each year who are able to demonstrate with real effectiveness not just Business Studies subject knowledge but keen powers of analysis and an ability to weigh up arguments within the context of the business examined in the case study.

## Comments on specific questions

### *Section A*

#### Question 1

- (a) Perhaps it was the excitement of this being the first question on the paper but a surprising number of candidates read this question as being *why* Sally might have forecasted demand. Hence there was, on occasions, great similarity between the responses to both Parts (a) and (b). The majority of candidates answered the appropriate question and were able to make some references to sales forecasting techniques. Market research, trend analysis and extrapolation and the moving average analysis of past sales data were often identified and explained. Application to the case was often quite weak and this could have come in the form of comments about the existence of five years past sales data for this business or the importance of macro-economic forecasts influencing potential demand for an income elastic service such as that offered by LoCost.
- (b) Most candidates were able to identify two possible uses of sales forecasts and these were often related to future planning of resources. It is a pity that such an obvious observation as “planning the number of new aircraft needed over the coming years” was not made by many candidates as such a statement immediately allows access to marks for application of the answer to the case. In addition, as soon as an answer is put into the context of the case study, Examiners can also begin to award evaluation marks if this skill is demonstrated in the answer. Many of the marks awarded for evaluation were because candidates had recognised that perhaps five years past sales data was inadequate for long term sales forecasts. Other candidates correctly explained that the uncertain nature of future economic trends could make even the most carefully forecasted sales data appear inaccurate over time, for a business that provides income elastic services.

## Question 2

- (a) There were many completely correct answers from certain examination centres. From some centres, there were no correct answers at all. Clearly, the performance of candidates on such a specific calculation question is likely to depend heavily on whether the technique has been taught and assessed within centres. There will always be at least two quantitative techniques examined on this paper and the topics covered will, over a period of time, include all of the techniques on the syllabus so centres are advised to prepare candidates for all of them. The major problem for candidates was, as expected, recognising whether the variances were adverse or favourable as marks were not just awarded for simple subtraction. The key rule is always whether the variance has a positive or negative impact on profit - so higher costs than budget are adverse and lower costs than budget (as with promotion costs in this case) are favourable.
- (b) Two relatively easy marks were awarded for identifying the impact of higher than expected costs or lower than expected revenue - but application and analysis marks had to explain why these variances might have occurred. So, an answer that referred to how higher petrol prices might have raised variable costs and reduced gross profit would have been awarded marks, as would an answer that explained that the lower promotion expenditure in this case might have contributed to the lower than expected sales revenue.
- (c) Relatively straightforward suggestions gained marks here and if they were developed in context then analysis and application marks would have been awarded too. The prompt term "discuss" should have encouraged candidates to briefly evaluate both of their proposals - but answers often failed to consider the limitations of the suggestions made. For example, the proposal to lower prices of car hire could have increased revenue if demand was price elastic - but that rival car hire firms could do the same which would just leave LoCost with lower profit margins and, probably, lower total profits.

## Question 3

The stakeholder concept is now well taught in nearly all centres and the high quality of some of the answers to this question was very pleasing. The data was very accessible but few marks were awarded for just stating what the charts showed. Points made had to be discussed in the context of LoCost for application marks to be given and some judgement was necessary for evaluation marks. Here is a good example of a candidate's sentence that contains both of these skills: "Customers would lose out from having to pay higher prices after LoCost is taken over but they may find that UWA offer better services and more routes so a higher fare could be a small price to pay if the service being offered is so much better". It was good to see that many candidates tried to conclude their answers with an overall judgement and this often took the form of a brief discussion of the almost inevitable stakeholder conflicts that would result from this takeover.

## Question 4

Most candidates gained at least half marks on this question as the data was accessible and relatively easy to explain in terms of location decisions. However, the opportunities that the data offered to demonstrate numerate skills were often ignored. A minority of candidates realised that the data could quite easily be used to calculate the payback period, average annual rate of return and the breakeven points of both locations. For those candidates who undertook at least one of these calculations correctly then the full range of marks became available. For answers that were limited to using the data with no further calculations there was a limit of Level One analysis and evaluation (see mark scheme). Candidates should be aware that in "real" business situations they will usually not be told which techniques of analysis to use but must weigh up the most suitable ones given the data available. This was one of those situations and it was a little surprising that more candidates did not see that the data could have been quite easily manipulated in these ways. Apart from the issue of numerate techniques, nearly all answers gave a recommendation of one site or the other - there was no "correct" answer. These judgements were only awarded marks if they were clearly put into the context of LoCost airlines. So, for example, the candidates who commented that City Y would be the preferred option as it had lower capital costs and the existence of more competitors was not a problem as LoCost had already developed a good reputation for being very price competitive, gained good marks for evaluation.

### Question 5

Answers fell into two broad groups in response to this question. Some candidates just went along with Gavin's statement and explained why promotion was so important in this case. This approach gained few marks as it failed to recognise the integrated nature of successful marketing strategies. Promotion alone never leads to marketing success - realistic objectives must be set and a marketing mix must be established which supports the company in its efforts to reach these objectives. Candidates who were able to argue convincingly that LoCost had to adapt all of its marketing mix - services offered, prices charged, routes flown and so on - were well rewarded.

### Question 6

Again, answers tended either to demonstrate some insight into LoCosts' position and based their answers around this or they just explained generally why expansion may lead to "people" problems. Centres are reminded to prepare their candidates to show an insight into the context of the case study in ALL of their answers on this paper and that, without context, no marks for judgement/evaluation can be awarded. Most candidates gained marks for recognising the common "people" problems associated with growth and how these can be tackled. Human resource planning issues, motivation levels, organisational structure changes and several other points were commonly explained. Good subject knowledge of many of the "people" topics of the syllabus was demonstrated in the vast majority of cases. Answers that used some contextual references in their explanations were much less common. The time taken to train skilled pilots or the problems of motivating staff at geographically dispersed airports were just two of the ways in which case study context could have been simply incorporated into an answer. The essay is NOT a "stand alone" question and it requires the same general approach - albeit with substantially more marks available for evaluation - as all of the other questions on the paper.

### Question 7

Very similar criticisms can be levelled at many answers to this question although, as always, there were some outstanding answers too. Very good subject knowledge of integration, economies and diseconomies of scale and government competition policy issues was again demonstrated in many answers. There needed to be a business to apply these points to, however, and if UWA was not to be used then candidates were invited to refer to any other company. This should have given candidates the opportunity to use some local country examples of mergers and takeovers - Examiners will always credit all relevant examples when the question states "companies such as.....". Unfortunately, there were relatively few answers that contained this kind of application to the candidate's own knowledge of integration examples. Without some business to refer to, any "evaluation" that candidates give in their answer just becomes the repetition of pre-learned points and this is not the skill that we should be aiming to encourage to the exclusion of well-focused and in-context judgement.