

# BUSINESS STUDIES

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Paper 9707/11  
Short Answer/Essay

## Key messages

- Any **Section A** question that asks for explanation requires more than a statement of relevant fact. The importance or significance of relevant factors must be explained.
- Candidates must take care when reading the questions in order to ensure that they respond correctly. This is just as important when answering **Section A** questions as the essay question in **Section B**.
- Time must be allocated carefully during the examination and candidates should not write answers that are too lengthy in **Section A** which can result in insufficient time being available to be able to write a sufficiently detailed essay.

## General comments

- Most candidates demonstrated a good range of knowledge of the Business Studies content indicating teaching and revision of the whole syllabus.
- Candidates should ensure that they are familiar with the format of the examination and that they understand how many questions need to be answered. A small number of candidates answered all three of the essay questions. This usually results in three answers that lack the insight and depth.
- Some candidates answered only **part (a)** or **part (b)** of **Question 5** or **Question 7**. If **Question 5** or **Question 7** is chosen then both parts must be answered. This type of error possible stems from a lack of knowledge of the structure of the examination paper.
- **Section B** requires candidates to demonstrate their analytical and evaluative skills. While there are a large number of candidates who offer effective and relevant analysis, it is a much smaller number who offer an evaluative comment. It should also be noted that any judgements made should relate specifically to the question set and, if appropriate, to the context given in the question.

## Comments on specific questions

### **SECTION A**

#### **Question 1**

- (a) Most candidates showed at least some understanding of what a contract of employment is. Good answers defined this as a legal document outlining the terms and conditions of employment and said that it is signed by both the employer and employee. Some answers gave a less precise response and merely made reference to what employees were expected or do or to the rules and regulations that should be followed. A good answer had the notion of a binding agreement between the business/employer and employee.
- (b) Most candidates were able to offer two advantages to employees of having a contract of employment with only a small number giving advantages to employers. A small number of candidates merely stated two advantages which limited the marks that could be awarded because the question asked candidates to 'briefly explain'. The most common advantages identified were that it gives some security to employees in that they know how much they will earn and that they have some protection against unfair dismissal. The explanation given was that if the employer failed to honour the contract the employee would be able to have redress in law if the employer breached the conditions in the contract of employment. Many candidates answered this question very well.

## Question 2

- (a) Answers to this question varied greatly. Good answers defined buffer inventory as being the stock kept in case of an emergency such as an unexpected increase in demand or a failure in suppliers delivering supplies to a business. Some candidates defined re-order level of inventory instead of buffer inventory. A small number of candidates described inventory and ignored 'buffer' completely.
- (b) This was answered well by the majority of candidates. The most common reason given was that a business needs to ensure that it has sufficient inventory to meet customer demands and that failure to do that would result in a loss of customers. Another popular reason was to make sure that inventory remained in good condition, with a frequent example of perishable goods being given together with the need for it to be sold while fresh.

## Question 3

Good answers to this question recognised the context of a tertiary sector business. Many candidates correctly described differentiation as being means of making your service distinguishable from your competitors and making it stand out as being unique. The reasons given for why this might be done were often given as being to attract more customers, to secure an increased market share and to enable premium prices to be charged. Strong answers gave explanation in context. However, a significant number of candidates who did understand differentiation failed to write their answers in the context of tertiary businesses.

## Question 4

- (a) This was answered well by the majority of candidates. Most answers correctly defined 'retained profit' as being the profit left after all deductions including tax and dividends have been made and the remainder is then available to be kept or reinvested in the business. Some candidates gave a very vague response by saying that retained profit was what was left after expenses have been deducted. Such responses were describing operating profit not retained profit.
- (b) This question required candidates to understand the difference between capital and revenue expenditure and then to identify sources of finance appropriate for that type of expenditure and for a partnership. As the question relates to a partnership the issue of shares was not accepted as a valid source of finance. Similarly, as the question refers to capital expenditure, short term sources of finance such as overdrafts were not accepted. Relevant answers frequently suggested that long term bank loans could be arranged and also explained that these would have to be repaid with interest and would require payments over a long period. Other valid suggestions included the introduction of a new partner, using hire purchase or leasing to acquire new equipment or arranging a mortgage if the capital expenditure was to acquire additional buildings.

## Question 5

- (a) This question required candidates to discuss the usefulness of primary market research in the context of a new business. Candidates who chose to answer these questions showed a good understanding of what primary market research is and the reasons why different methods might be used. However, the majority of candidates ignored the context in the question and wrote only in general terms about primary research. Good answers addressed the context of a new business and also analysed reasons why primary market research might be important. This was sometimes achieved by contrasting the amount and type of information that an established business might have about consumers and the market compared to a new business. Good answers explained the need to establish the needs and wants of customers to avoid launching an unwanted product or of setting up the business in the wrong place. A focus for analysis in such answers was often the need to reduce the risk that is present when a business first starts up.
- (b) This part of this question was less well answered. The question required candidates to focus on ways in which a business could make sure that any market research expenditure was cost effective. Weaker candidates focused on market research and offered little explanation or knowledge of cost effectiveness. Good answers identified the need to plan and set objectives so that time and money would not be spent on research that was unlikely to yield useful information. Other ways included making sure that the cheapest methods of market research were used with the stronger candidates adding some analytical comment about the fact that cheap methods were

only justified if they could produce useful results. This argument frequently led to a debate about the effectiveness of primary market research compared to secondary market research.

It was disappointing that there were very few candidates who attempted any evaluation when answering this question.

## **SECTION B**

### **Question 6**

The type of response to this question was frequently the advantages and disadvantages of employee participation. This approach was valid but needed to have analysis that focused on the desirability of employee participation in a profit maximising business; the profit maximising context in this question was ignored in the majority of answers.

A good response to this question outlined the reasons why employee participation might be beneficial and how it might help a business to achieve profit maximisation and then presented reasons why employee participation might detract from the potential to profit maximise. Very strong answers also pointed out that the benefits might not be felt in the short term but that in the longer term businesses adopting this approach might gain the benefits of loyal staff and highly skilled workers wanting to join the business.

Some responses linked employee participation to motivation but then failed to develop the discussion in terms of how this might impact on a business achieving profit maximisation.

The majority of answers to this question had very limited, if any, analysis and rarely offered any evaluation.

Candidates must not be tempted to write about Business Studies content that they are familiar with if that is not what the question is asking for.

### **Question 7**

- (a) The majority of candidates answering this question showed a good understanding of ethical and unethical behaviour and were able to give several examples of each. Candidates discussed many valid reasons why businesses might not behave ethically. Many identified the focus on profit as a common reason and that the cost of behaving ethically often prevented businesses from achieving their profit objective. Reasons given for this included the cost of buying environmentally friendly equipment or of disposing of waste products appropriately. Some good answers also included analysis of the culture of different organisations and/or countries and how this might impact on whether or not businesses would act in an unethical manner.
- (b) Candidates mostly included relevant examples of unethical behaviour, many of which have been reported globally such as the recent VW issue with fume emissions which demonstrated that many candidates are keeping up to date with world business events.

Strong answers to this question maintained a clear focus on just how unethical behaviour would be likely to damage the reputation of a business. Examples given were frequently of pressure groups raising the awareness of consumers to the unethical activity of a specific business and the impact that might have on sales and customer loyalty. Some candidates did not seem to appreciate the fact that unethical behaviour is not necessarily illegal and focused on how courts of law would take action against businesses.

Some of the content referred to poor business behaviour, such as bad customer service, which is not unethical but merely bad business practice.

There were some strong responses that also questioned the extent to which unethical behaviour might or might not damage the reputation of a business. Such an approach often referred to the size of the business and how well known it was. These candidates also frequently questioned whether consumers would become aware of the unethical behaviour because if they did not then the issue of damaging the business's reputation would not arise. Some evaluative comment was also made in terms of the nature of the economy that businesses exist in; for example, many candidates wrote that in an undeveloped economy unethical behaviour such as bribing to get contracts might be the way that business is done and that businesses who do not engage in such activity will not survive.

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Paper 9707/12  
Short Answer/Essay

## Key messages

- Candidates are reminded that in **part (b)** of **Questions 1, 2, and 4** the command words are 'briefly explain'. Some answers given for this examination simply gave a brief one sentence of explanation. This is unlikely to amount to a sufficiently developed answer. While there is no need to write a 'mini' essay for these answers, there must be evidence of some development of a relevant piece of information in order to satisfy the requirement of 'briefly explain'.
- Where a question asks for **two** limitations or advantages or reasons etc. it may well help candidates to clearly distinguish their two answers by writing two clearly separated short paragraphs.
- Candidates are reminded that as countries and economies develop their service sectors grow. It would be good to see more examples of service sector businesses presented where examination questions allow.

## General comments

- There is still evidence that some candidates are not spending sufficient time to carefully interpret the questions before commencing to write answers. This is a real potential investment of time and prevents answers which introduce non relevant material. It also prevents giving only a partial answer to a particular question.
- Candidates should be reminded to ensure that any specific business context in a question is explicitly addressed. Analysis and evaluation marks will only be awarded if such context information is acknowledged and discussed.
- Where there is no specific business context presented in a question, candidates must nevertheless apply discussion and analysis to business settings.

## Comments on specific questions

### **SECTION A**

#### **Question 1**

- (a) Most candidates knew something about break-even. A full definition requires reference to the level of output where total costs equal total revenue, where neither profit or loss is made. Only a small number of candidates mentioned the level of output or sales.
- (b) This part of the question tested a true understanding of the break-even calculation and it was poorly and vaguely answered by many candidates. Some criticised B/E for being an insufficient objective for a firm, not realising that it is a management accounting calculation. The most common answers were that it is inaccurate, only a forecast and subject to error. But there were some good candidates who recognised that external factors could change significantly and affect the B/E calculation, that it is unlikely that fixed costs will remain unchanged at different output levels, that not all costs can be classified neatly into fixed and variable costs, and that it may well be unrealistic to assume that all units of production are sold.

#### **Question 2**

- (a) Piece-rate payment method is very well understood.
- (b) Those who correctly defined piece-rate payment in **part (a)** were usually able to state at least one disadvantage for employers. Many were able to cite 'quantity at the expense of quality', that there

might be unplanned overproduction, and that there might be a high labour turnover or absenteeism through a demotivated workforce. Unfortunately some candidates misread the question and discussed disadvantages for employees rather than for employers.

### Question 3

This question was well answered. Some candidates clearly had information and understanding relevant to this question but were unable to develop points effectively. Small businesses were said to contribute to employment levels but often opportunities were missed to develop the implications of these extra jobs for increasing standards of living and taxation contributions to governments. Many candidates also only see 'small businesses' as sole traders and small partnerships. SMEs can of course be quite significant businesses and employ many people.

### Question 4

- (a) **Very few candidates knew the meaning of intellectual capital.** Strong candidates were able to give an adequate definition by saying that it is an intangible asset and by giving an example such as the knowledge, training and skills of the workforce.
- (b) Most candidates were able to give a partial answer to this question by referring to the purchase of machinery, but the answers were very general on the whole and some did little more than repeat the question. Many failed to write their answers in the context of business operations. Strong answers recognised the importance of capital as a business investment resource and explained how it could contribute to more efficient and effective production processes. Intellectual capital in the form of an intangible bank of expertise, skills and competencies has the potential to give business processes a distinctive and competitive edge.

## SECTION B

### Question 5

- (a) This was a very popular question and most candidates were able to give good answers. Strong answers recognised the importance of employee motivation as a management objective that impacts on productivity and business efficiency. A motivated workforce can mean low labour turnover, low absenteeism and high productivity. Weaker answers discussed *how* motivation can be achieved rather than saying *why* it is an important objective of managers.
- (b) Most candidates were able to describe and discuss the assumptions behind the Taylor 'economic man' theory of employee motivation. However many answers did not discuss the adequacy of this approach as an explanation of motivation. Strong answers analysed the Taylor approach and considered other theorists. A comparison was often made between Taylor and Maslow. The lower order needs of Maslow were compared with the focus of Taylor on money as a motivator. Answers then went on to identify higher order needs that were ignored by Taylor. Such answers showed clear thinking and an ability to compare, analyse and evaluate.

### Question 6

This was the least popular of the essay questions. Many of the answers to this question confined themselves to a comparison between primary and secondary research methods. Strong answers used a simple structure of market research benefits and market research limitations to plan the answer. An initial discussion of the potential value of effective market research – in reducing risk, in producing market intelligence, in producing information for business decision making – provided a platform for identifying and analysing some potential limitations of market research activity such as inappropriate methods, inadequate objectives and imperfect results. A discussion based on such a simple outline structure provided many opportunities for very effective analysis and evaluation.

### Question 7

This was a popular question.

- (a) Most candidates had some idea of what a social enterprise is, although there is still some confusion between social enterprises, charities and the public sector. It is pleasing to see that the

triple bottom line is quite well known and the stronger answers unpacked this concept to make an incisive comparison between social enterprises and other private sector businesses.

- (b)** Strong answers focused on the opportunities for an entrepreneur to succeed as a franchisee or as an independent restaurant owner and carefully discussed and analysed the advantages and limitations of these two options. Many answers however simply discussed the franchise business model with little or no restaurant context. Such responses led to a quite limited approach to this question. The independent restaurant ownership option was largely ignored by many candidates as they focused almost exclusively on just a partial interpretation of the question.



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Paper 9707/13  
Short Answer/Essay

## Key messages

- Candidates are to be reminded that the command words for **part (b)** of **Questions 1, 2, and 4** are 'briefly explain'. Answers which simply present a simple single sentence are unlikely to contain development or examples sufficient to support the requirement of 'briefly explain'. A mini essay is not required, but there must be evidence of some developed explanation in order to secure maximum marks for these questions.
- If a question requires **two** advantages or limitations or reasons etc. then candidates are advised to write two clearly separated paragraphs.
- Candidates are reminded that as countries and economies develop, their service sectors grow in importance. It would be good to see more examples of service sector businesses presented where examination questions allow.

## General comments

- Many candidates demonstrated a sound knowledge of the syllabus content assessed in this examination. However, there was some evidence of a relatively weak understanding of certain parts of the syllabus by some candidates. This was evidenced by the responses to **Questions 2(a) and (b)** and **Question 3**. These questions focused on some key fundamental concepts in the Operations & Project Management and Finance & Accounting sections of the syllabus.
- Candidates are reminded of the value of leaving a little time at the end of writing an essay answer in order to construct a meaningful conclusion section. This should give an opportunity to make some concluding analytical and evaluative comments.

## Comments on specific questions

### **SECTION A**

#### **Question 1**

- (a) There were many candidates who were unsure about this concept. Instead of giving a precise definition of internal growth based on organic growth through the expansion of existing operations, some answers focused on vague and imprecise definitions more relevant to notions of growing a business or discussions of growth per se. Strong answers contrasted internal growth possibilities with external growth opportunities through acquisition and merger.
- (b) Many candidates were more confident in this part and showed good knowledge and understanding of why businesses see growth as an important objective. Good contextual examples were also often given. However, while some candidates stated two relevant reasons for growth, there was often little supporting explanation or development.

#### **Question 2**

- (a) Candidates generally fell into two camps in defining process innovation – those who correctly defined the concept as the use of a new or improved production or service delivery method, and those who incorrectly confused the concept with new products.
- (b) The strongest answers used examples of process innovation, such as robotics and CAD/CAM, to show how efficiency gains could be achieved in a business. Weaker answers identified process innovation possibilities but gave no supporting explanation.

### Question 3

This proved to be a very challenging question for many candidates. The accountancy based terms 'revenue expenditure' and 'capital expenditure' were not accurately defined by many candidates and as a result the importance of the distinction between the terms for a business was often not recognised or discussed. Some answers got the terms the wrong way round, while others confused revenue expenditure with sales and/or income. Strong answers accurately defined both terms and then explained the importance to businesses in terms of financing each type of expenditure and of treating them differently in the final accounts.

### Question 4

- (a) This was very well answered by many candidates.
- (b) This question was also confidently answered, although some candidates did little more than give a detailed definition of autocratic leadership rather than briefly explain two advantages of this type of leadership for a business. Relevant advantages identified and explained in strong answers included reference to the speed of decision making where a quick response is required and to the value of close supervision and control to secure business organisation consistency and a focus on objectives.

## SECTION B

### Question 5

- (a) The strongest responses to this part clearly defined a USP as a product or service differentiator that sets a business apart from competitors. Such answers then gave examples and applied the concept to the 4 Ps, notably to product, price and promotion. Weaker answers were much more general and lacked specific application to an explicit marketing context.
- (b) The strongest answers to this part discussed specific ways in which customer relations might be improved in a retail store. Many candidates referred to human resource techniques such as improved training and more effective recruitment strategies. Thoughtful answers often distinguished between short and long term ways to improve the relationship between a customer and the business and made evaluative comments on the possibility of strengthening customer satisfaction and loyalty.

### Question 6

This was not a popular question. There were however some good responses. Strong answers analysed what each of the three named departments did in a business organisation and then applied this analysis to cooperation with an Operations Department. Perceptive answers recognised how each of these three departments had the potential to make a significant contribution to the working and success of an Operations Department and consequentially to the success of the overall business.

### Question 7

- (a) Sound answers to this part recognised the many and varying functions of business managers and used a management theorist such as Mintzberg to describe and analyse these functions. Weaker responses gave quite general explanations of the role and functions of management with little or no analysis of impact or significance for business performance.
- (b) Most candidates demonstrated a very sound understanding of emotional intelligence in answer to this question. Strong answers to this question effectively examined the production worker context given and used concepts such as Theory X managers, and workers' responses to Theory X managers, to determine the relevance of emotional intelligence to a production worker context. Such answers provided opportunities to really question the usefulness and significance of emotionally intelligent supervisors in a production line scenario.



# BUSINESS STUDIES

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Paper 9707/21  
Data Response

## Key Messages

- Encourage candidates to use the context to support their responses.
- Identify what analysis and/or evaluation is appropriate to a question – practise these skills.
- Candidates can demonstrate application and analysis with a few well developed points especially in **parts (c) and (d)**.
- Remind candidates to be aware of the marks available for each question so that they do not spend too long on shorter questions but devote adequate time to analytical and evaluative questions.
- Advise candidates that copying data from the case study is not necessary. In **Question 2(c)** data was simply copied or described without linking to the **limitations** of using accounting ratios.
- Ensure full understanding of the command words.
- Practise 3-mark 'explain' questions and get students to produce their own list of words/definitions/ explanations with examples.

## General Comments

The case material for both questions seemed to be well understood. There seemed little difficulty with understanding the questions set although some candidates tried to answer **Question 2(c)** with reference to the use of accounting ratios rather than the **limitations** of using accounting ratios.

Candidates are missing opportunities to:

- Use the context – this is a **data response** paper
- Identify opportunities to analyse – it is always possible to develop the data further
- Identify opportunities to evaluate – **1(d)** required a justified discussion of the benefits of investing in process innovation for PC.

There was no apparent evidence of time being an issue with most candidates. Candidates, on the whole, have a good grasp of business terminology and are able to express themselves effectively.

## Comments on Specific Questions

### Question 1

- (a) (i) Candidates could identify the relevant characteristics of a private limited company, such as limited liability, continuity and legal identity. They were able to distinguish a private limited company from a public limited company by stating shares bought by family and friends and/or shares are not available on stock markets.
- (ii) Most candidates managed to give good explanations of managers' roles and responsibilities. Good answers developed their explanation further by, for example, giving examples of different kinds of managers (HRM, Marketing manager, etc.) or stating that managers work towards achieving company objectives to demonstrate a good understanding.

There is no need for context in answering **part (a)**.

- (b)(i)** The correct answer of Gross Profit Margin (GPM) was given by many candidates. Common errors were to arrive at an answer of 14.3% [or 14.3], i.e. (Net) Profit Margin. Almost all candidates made an attempt and managed to score a mark on stating the equation for GPM, identifying the gross profit or dividing by sales revenue.
- (ii)** Candidates demonstrated understanding of how to improve GPM by increasing sales through promotion, increasing selling price and finding a cheaper supplier. Level 2 answers applied to the case by including reference to, for example, reducing wastage (throwing away \$1000 of dog food) and reducing the high level of inventory.
- (c)** Candidates needed to use the information in the scenario and data provided. Most candidates showed understanding of cost based pricing and could discuss the effect on prices and use the information on the characteristics of the local market. The disadvantages appeared to be readily discussed and the context incorporated into these discussions. Better answers could also discuss the advantages in context.
- (d)** Many candidates saw this question as an opportunity to write everything they could about process innovation – sometimes using examples of manufacturing industries rather than the business in the data given. Many candidates recognised that process innovation involved a change in operational methods and hence managed to identify the benefits of process innovation in context and analysed the benefits in context. Strong candidates managed to give a justified evaluation/judgement based on contextual analysis.

## Question 2

- (a)(i)** Most candidates managed to gain reward by stating ‘owned by individuals/groups and not owned or controlled by state/Government’. Some managed to give examples of private sector organisations or stated that the profit motive is more relevant in the private sector than the public sector.
- (ii)** This part was well answered. Candidates demonstrated good knowledge of labour intensive as opposed to capital intensive and that the job was done by employees/workforce. Some managed to give an example of labour intensive. Weaker answers failed to define ‘labour’ as employees/workforce.
- (b)(i)** The correct answer was given by many candidates. Common errors were to arrive at an answer of 8.3% [or 8.3] by using the 2013 figure, or getting an answer of 18.3% [or 18.3] by adding 2013 and 2014 figures, or getting an answer of 9.1% [or 9.1] by averaging 2013 and 2014 figures.
- (ii)** Most candidates could identify the disadvantage(s) of rising labour turnover but failed to explain the disadvantage of rising labour turnover in CM (labour intensive production).
- (c)** Many candidates managed to compare the accounting ratio(s) of CM and competitor X and stated which one had higher or lower accounting ratios. They scored marks on showing the understanding of the use of accounting ratio(s) in context. Better candidates managed to identify the limitation(s) of using accounting ratios in context and used examples from the information in the paper.
- (d)** A significant number of candidates simply listed the benefits and drawbacks of job rotation. The majority of answers showed good understanding of job rotation and its use as a motivational tool. Strong answers considered the application to CM and based their evaluation on good contextual analysis.

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Paper 9707/22  
Data Response

## Key Messages

- Many candidates used the context of the data. However, candidates sometimes just repeated or quoted from the data and this cannot be rewarded in this examination.
- Candidates also demonstrated analysis in response to questions **1(c)**, **1(d)**, **2(c)** and **2(d)**. However much of this analysis is basic and lacks either context or depth. To show good analysis candidates must use the context of the data to show sequential analysis: .....leads to..... which may also lead to..... The end point of good analysis will be the effect on the stakeholder or business.
- Centres must continue to prepare candidates to respond at the right level for each question:
  - **Part (a)** required an explanation without using the data. Each part has three marks and candidates should aim for a detailed definition and an example, not related to the data as this will often show no understanding, especially as it may be copied from the text.
  - **Part (b)** required calculation and then use of that calculation in context. When a candidate is told to use or refer to their earlier answer they must do this.
  - **Part (c)** required analysis in context. Candidates should aim for two well analysed points and a good answer *does not* require a conclusion or any evaluation.
  - **Part (d)** required evaluation based upon good analysis in context. A good answer will often benefit from a conclusion.
- Evaluation continues to be rare in candidates' responses to questions **1(d)** and **2(d)**. Those candidates who do manage to gain some evaluation marks often try to cram it all in at the end of the response and it ends up being rushed and weak. Any question that requires an evaluative response will require candidates to answer the question. Some evaluative command words include:  
'To what extent...' – a judgement is required over the extent to which something happens or is true.  
'Discuss...' – a judgement over which side of a discussion/argument is most compelling  
'Evaluate...' – a judgement over the benefits/costs/validity etc. of something  
'Recommend...' – a judgement about the best/most appropriate/suitable solution

## General Comments

Paper 2 is a reasonably time pressured examination where candidates must have a good sense of timing to complete all the questions within the given 1 hour 30 minutes. Most candidates were able to answer all of the questions on the examination and there were fewer timing issues than in previous sessions.

The contexts of Popular Presents (PP) and Kitchen Quality Appliances (KQA) both proved accessible and candidates did not struggle understanding the markets involved. The fact that PP was a new business gave candidates a basis for their answer to **Q1(b)(ii)** and **Q1(d)** and this was used well. However the capital intensive manufacturing nature of KQA could have been used more effectively in **Q2(b)(ii)** and **Q(c)** to allow candidates to access higher marks. It is essential that candidates look for the characteristics of each business, upon which the data is based, to find what makes it different. This should form the basis of application, analysis and evaluation in an answer.

A response to a longer question (parts **(c)** and **(d)** on both questions) which does not include some elements of the data cannot receive any contextual marks and as such a candidate is unlikely to achieve a high grade on the paper. Teachers should look for context which distinguishes an answer from a generic answer. An answer without context is unlikely to achieve higher than half marks in the examination.

### Comments on Specific Questions

#### Question 1

- (a) (i) Candidates generally knew what was meant by a unique selling point and most candidates were able to show a reasonable level of understanding in their answers. It is always sensible to use an example in these explanation questions, however too many candidates simply quoted directly from the data to show their understanding. Although PP does have a unique selling point, there is no further understanding shown by a candidate by quoting the data. If candidates wish to give an example (which good answers often do) then the examples should not be based on the business in the data.
- (ii) Most candidates could identify the important elements of cash flow but it was rarer for candidates to be able to show an understanding of the future nature of a cash flow forecast. Centres must practise answering questions fully, including each element of a term which requires explanation; in this case both 'cash flow' and 'forecast'.
- (b) (i) Most candidates made some attempt to calculate the gross profit, although there was varying success with techniques used. Candidates could use a number of techniques to calculate the gross profit but in the cases where the answer was incorrect it is vital for the examiner to be able to follow the logic of a candidate's answer. To be able to gain marks for partial calculations, or where a candidate has made an error of calculation, there must be more than just random numbers written as an answer.
- (ii) Most candidates understood what was meant by the term 'penetration pricing' but not all could identify and explain a disadvantage of the technique. This disadvantage needed to be in the context of PP not just a generic disadvantage of penetration pricing.
- (c) The data provided plenty of context upon which to base a good answer. PP is a new business without a cash flow forecast and strong competition. Also it is utilising a low pricing strategy and Jack seems to have little market research. All of these elements (and more) could have easily formed contextual analysis and good candidates took two of these factors, explained the effect on the business and analysed the impact that might lead to PP failing in the first year. Candidates had obviously learned a set of factors which could lead to business failure and if these were stated without context this limited the mark awarded.

This question was generally well answered by candidates, however there were still some candidates who seemed to jump to answering the question without fully reading and understanding the data about PP. Questions like this are led by the data – good candidates did not waste time explaining the theory behind factors which could affect any business but went straight into application and explained the most likely factors to affect PP.

Analysis in this question required candidates to show how this factor was likely to lead to a lack of success for PP. It was not enough to merely state a factor could lead to failure. Candidates needed to show the steps that PP might face and encounter and how this could eventually lead to failure. It was too common to read an answer where a candidate stated that a lack of cash flow forecasting could mean that PP does not survive without any attempt to show **how** this might happen.

- (d) Most candidates knew about sources of finance. Most candidates were able to name and explain a number of sources of finance. However too many candidates spent a great deal of time going through every source of finance they had learned about, without thinking about the most appropriate for PP. This led to long answers that often only scored average marks.

Once again the key to this answer was context. In this case PP is a newly established business with no track record and an inexperienced owner. For example, most candidates suggested a bank loan might be appropriate and this could have led to effective analysis as long as the candidate analysed why Jack might find it difficult to obtain one.

The question asked candidates to 'discuss additional suitable sources of finance'. Therefore a minimum of two sources of finance were required to be analysed and then evaluated to gain full marks. Three sources would not be an unreasonable number of sources of finance to analyse and evaluate within the time and candidates who made a judgement between their chosen sources of finance based on contextual good analysis were rewarded well.

## Question 2

- (a) (i) Portfolio analysis appears in the AS specification as a way of achieving marketing objectives. Candidates could, therefore, explain the term as an analysis of any element of the business that might allow it to achieve these objectives. An obvious route was to suggest that a business would look at the advantages and disadvantages of the range of products, markets or production methods.

Again with a two-word term, it is necessary to fully define both aspects. In this case there were many tautological explanations using the word 'analysis' to define itself. This will not be rewarded as an explanation of the term.

- (ii) Most candidates understood and could explain the term 'shareholder'. However some failed to understand that shareholders are only owners of companies. There were a few candidates who confused the term with 'stakeholder'.
- (b) (i) Most candidates understood that the question called for a measure of the liquidity of KQA, but many confused the acid test ratio with the current ratio.
- (ii) This question asked for the **implications** of the change in the acid test ratio, **not for the causes** of the change. Some candidates spent a great deal of time describing the change in the acid test ratio and then explaining possible causes for the change. This was a waste of valuable writing time. Centres must prepare candidates to answer the question that they are given. The implications for the business needed to be in the context of KQA.
- (c) Economies of scale was a well understood topic and candidates could generally identify a number of economies to explain. There were some good attempts to place these in the context of KQA, especially when discussing managerial economies of scale and technical economies of scale. There were a few candidates who struggled to distinguish between economies of scale and other benefits to a firm of growing larger. The key aspect of an economy of scale is the decrease in average or unit costs that occur and some candidates missed out this essential piece of knowledge which impeded their analysis.

An analysis question such as this requires a minimum of two aspects analysed. There is some logic to a candidate trying to analyse three to make sure that they are not providing the bare minimum, but candidates who attempt to analyse many more than this will often run out of time to spend on other questions. The quality of the analysis, in context, is the important issue, not the number of economies of scale chosen.

- (d) To be able to answer this question candidates must first identify the problems in the data. This should be the starting point for the answer and the candidate's knowledge of Business Studies will provide ways in which human resources could solve these problems. Unfortunately many candidates started with the role of human resources and analysed the usefulness without every referring to the problems of KQA. This type of answer lacks context.

For KQA the problems were fairly straightforward in terms of lack of skilled employees, difficulties in recruitment and quality control, as well as the production targets and impacts of growth. These were outlined in the data and any reasonable human resources approach to solving these problems was credited. This allowed candidates to take many different approaches and still be correct. This, therefore, highlights the importance of the skills of analysis and evaluation in an answer and this is where centres need to focus when preparing candidates for these longer answer **part (d)** questions.



# BUSINESS STUDIES

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Paper 9707/23  
Data Response

## Key Messages

- Context is the key to good analysis and evaluation. Candidates need to be **selective** in their use of knowledge, what they analyse and the conclusions that they come to **based on the business in the data given**. For example in **Question 2(c)** many candidates just wrote down everything they knew about the 4Cs, rather than being selective in their analysis of the role of the 4Cs based on the context of Wonderful Windows. It is not unreasonable for a candidate to spend 5–10 minutes of the examination reading and understanding the data – they should not start writing their answer as soon as the examination begins.
- Candidates must read the questions thoroughly. Each question is a set of instructions which, if understood and followed, should prompt an excellent answer.
- Candidates also demonstrated analysis in response to questions **1(c)**, **1(d)**, **2(c)** and **2(d)**. However much of this analysis is basic and lacks either context or depth. To show good analysis candidates must use the context of the data to show sequential analysis: .....leads to..... which may also lead to..... The end point of good analysis will be the effect on the stakeholder or business.
- Centres must continue to prepare candidates to respond at the right level for each question:
  - **Part (a)** required an explanation without using the data. Each part has three marks and candidates should aim for a detailed definition and an example, not related to the data as this will often show no understanding, especially as it may be copied from the text.
  - **Part (b)** required calculation and then use of that calculation in context. When a candidate is told to use or refer to their earlier answer they must do this.
  - **Part (c)** required analysis in context. Candidates should aim for two well analysed points and a good answer *does not* require a conclusion or any evaluation.
  - **Part (d)** required evaluation based upon good analysis in context. A good answer will often benefit from a conclusion.
- Evaluation continues to be rare in candidates' responses to questions **1(d)** and **2(d)**. Those candidates who do manage to gain some evaluation marks often try to cram it all in at the end of the response and it ends up being rushed and weak. Any question that requires an evaluative response will require candidates to answer the question. Some evaluative command words include:  
'To what extent...' – a judgement is required over the extent to which something happens or is true.  
'Discuss...' – a judgement over which side of a discussion/argument is most compelling  
'Evaluate...' – a judgement over the benefits/costs/validity etc. of something  
'Recommend...' – a judgement about the best/most appropriate/suitable solution

## General Comments

Candidates must have a good sense of timing to complete all the questions within the given 1 hour 30 minutes. Those candidates who did suffer from timing issues generally had spent too long on one of the longer questions and ran out of time for question **2(c)** and **2(d)**.

A response to a longer question (**parts (c) and (d)** on both questions) which does not include some elements of the data cannot receive any application marks. When assessing work within a centre, teachers should look for context which distinguishes an answer from a generic answer.

Centres should prepare and practise the use of unseen data before the examination. A good technique can be to read the data, read the questions and then to go back to the data again. This process is likely to take 5–10 minutes of the examination for both questions, but it will produce responses that are more likely to demonstrate good analysis and evaluation.

### **Comments on Specific Questions**

#### **Question 1**

- (a) (i) Candidates generally had a good understanding of the term ‘sole trader’ and could identify the most important aspects of an explanation. This question was well completed.
- (ii) The data stated that CC operates in a niche market. Therefore an explanation of the term ‘niche market’ should not repeat the data as this shows no understanding of the term. If candidates want to give an example to show some understanding then a different example should have been used. Most candidates could identify that niche markets were often small but less could explain that a firm in a niche market targets a relatively small segment of the entire market.
- (b) (i) To answer this question candidates needed to have a knowledge of what contribution is and how to calculate it. Most candidates knew that this required some use of the cost and revenue figures. Many were able to calculate the direct costs but then going the extra steps to calculate contribution was more difficult. Candidates should set out their answer in a clear and easy to follow way. Candidates who give a wild array of calculations and figures with little logic to the way they are set out on the page are unlikely to be rewarded, unless they get the right answer.
- (ii) There are many potential answers to why accurate cost data is important to a business, but when looking at the specific case of CC some of these answers are relevant and others are less so. Too many candidates gave a generic answer that could apply to any business and relatively few attempted to place the importance in the context of CC. If a question mentions the name of the business then it must be answered in the context of the business.
- (c) Most candidates had some knowledge of e-commerce and there was reasonably good application to how CC could use e-commerce. However this question asked candidates to ‘analyse’ and this required candidates to analyse the ‘issues’ that CC should consider. Therefore this was not asking for an analysis of the advantages and disadvantages of e-commerce, but a more targeted approach that was about the issues specific to CC and how these might help or hinder the business with their new product range.

The data mentions that CC will need to purchase a computer controlled sewing machine if CC goes ahead with e-commerce and too many candidates focussed on this in their answer. Whilst the sewing machine could have been brought into a good answer, in terms of meeting the demand and delivery estimates required for e-commerce, too many candidates spent their time discussing the advantages and disadvantages of purchasing a computer controlled sewing machine. This was not answering the question and led to unfocussed analysis.

Candidates must focus on the question that has been set. In this case the focus of the analysis is the issues CC should consider when deciding to use e-commerce for selling the new product range. Any analysis that falls outside of that instruction is a waste of a candidate’s time and efforts in the examination.

- (d) Most candidates had some knowledge of batch production and were able to give some generic advantages and disadvantages of its use. Fewer candidates were able to place their knowledge of batch production into the context of CC and even fewer were able to develop their points far enough to gain good analysis. A superficial analysis in terms of ‘batch production may lead to poor quality compared to job production’ is not good enough for this examination. Candidates must be able to take their analysis further to show the various impacts and the overall impact on the business. In an evaluative question such as this, they must also be able to make some form of judgement about the likelihood or extent of the impact and what this might depend upon.

## Question 2

- (a) (i) Most candidates had some knowledge of industrial markets but few were able to show a good understanding. One of the most important elements of an industrial market is that it is a business to business (B2B) relationship, rather than to an end consumer. An example (not using the data) is a very good way of showing good understanding but relatively few candidates tried to give an example apart from WW.
- (ii) Management accounting is a specific term to mean the day-to-day financial data used in decision making by a business. There are two elements to explain in this question the 'management' element and the 'accounting' element. Many candidates attempted to explain the 'management' element but forgot or did not try to explain what accounting meant. This led to a lot of tautological explanations which demonstrated a lower level of understanding than required. Centres should practise the full explanation of terms, especially those which combine two terms together.
- (b) (i) Some candidates knew how to calculate the margin of safety and some did not.
- (ii) This question is about WW, but some candidates gave a generic answer lacking any context. Good candidates did not spend time describing what break-even analysis is, but went straight into an explanation of the limitations of break-even analysis to WW. Candidates do not need to define terms or explain pieces of knowledge if they use them correctly in their answer. This is especially important for candidates who struggle with time in this examination.
- (c) There were many variations given in response to this question. Centres need to secure candidates' knowledge in this area.

There were two main approaches that a candidate could have taken in response to this question. The first approach was to take the 4Cs as a whole and explain the importance/role of having a customer focus to help WW compete more effectively. The second approach was to take each of the elements of the 4Cs and explain the role of each in helping WW compete more effectively.

Those candidates who did have a good understanding of the 4Cs often spent too much time explaining each of the 4Cs (sometimes in context). It was much rarer for a candidate to try to analyse how this could help WW to compete more effectively. Because candidates attempted to go through all 4Cs and write everything they knew about them, much time was wasted which could have been better used by some analysis or a stronger attempt at another question.

- (d) This question was completed reasonably well and candidates had a good knowledge of motivation. However too many candidates spent a significant amount of time writing everything they knew about motivation and motivation theories. There are only two marks available for pure theoretical knowledge in this question – full and detailed explanations without context are a waste of precious time in this examination. What was far more important was the use, in context, of this knowledge and then the subsequent analysis and evaluation for WW.

The focus of this question was the methods of motivation and the analysis should have been about how these methods might improve the motivation of the sales staff in WW. The impact of the analysis and the focus of the evaluation should have been on the extent to which each chosen method may improve this motivation. Too many candidates got 'lost' in their answer and did not focus on the question set. It is worth referring back to the question, on a number of occasions, and showing how each point made answers that question – hence making sure that the answer remains focussed.

# BUSINESS STUDIES

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Paper 9707/31  
Case Study

## Key messages

- Starting an answer with a relevant definition or explanation of the terms used in the question shows knowledge and focus on the question.
- Questions that follow a calculation question normally call on the candidate to use their answer to the calculation.
- Repetition of sections of the case study – or including material relating to the topic of the question but not directly addressing it – will not attract application marks.
- Addressing the specific question asked is a requirement for knowledge and analysis marks to be awarded.
- Working through past papers and using the published mark schemes will develop the key skills of application, analysis and evaluation.

## General comments

The marks awarded showed a very wide spread, including candidates who wrote very little to those who produced detailed thought out answers that addressed all the questions in depth, drawing on relevant syllabus topics. The majority of responses showed an understanding of relevant business concepts and skills and the ability to apply these to the questions set. Candidates are encouraged to state any formula used when answering calculation questions and to set out their working. Many candidates stated an incorrect answer to a calculation question and gained zero marks when showing working could well have been credited. It is important to address the specific question asked and many candidates failed to do this, especially in the higher mark questions. **Questions 6 and 7** pose particular problems as many candidates fail to address the question actually asked. Starting with a definition of the terms in the question would help focus on the issue in the question. These questions deal with strategic issues and answers should focus on the role that strategic management plays, particularly assessing the factors that a business may take into account when dealing with the issue in the question.

A noticeable number of candidates showed understanding of how to perform a calculation but were less aware of how the result may be used to help take a decision. This syllabus is about decision making and candidates should be able to understand the use of numerical techniques. This was especially noticeable in relation to contribution and the meaning of the data in Table. It is difficult to reward responses that contain either only textbook explanations of concepts or material from the case study that is repeated without being used or commented on. It is important that candidates apply their understanding to the specific issues in the case and the questions. When this is done an excellent answer can be written that is not long or wordy and focuses on the question. This type of response uses syllabus knowledge applied to the case material to develop an argument or a consideration (for example, of benefits and limitations) to come to a reasoned conclusion based on this analysis.

The quality of written communication varied and was generally good. Examiners are conscious that many candidates are not writing in their first language and go to great lengths to make sure that they credit understanding of Business Studies in the answers.

## Comments on specific questions

### Section A

#### Question 1

Many answers started by defining corporate social responsibility. Those that did not clearly showed an understanding of the term by referring to examples and the behaviour of BAS in relation to the term. Most responses cited a number of benefits to BAS and good responses gave an explanation of why CSR would lead to the benefits and/or the implications for BAS in terms of e.g. efficiency, increased sales, better brand image or recruitment of high quality staff. This chain of reasoning is clear analysis, e.g. 'responsibility for actions that affect the community resulted in BAS using biofuels to reduce carbon emissions could lead to higher ticket sales to people who have a real concern for global warming'. Most of these answers drew on material from the case in support or illustration. A number of weaker responses listed possible CSR areas of interest without showing how these might benefit BAS rather than society. This made it difficult to award analysis marks and shows the importance of answering the question set. Answers dealing with the disadvantages of CSR, e.g. cost, could not be credited, nor could attempts at evaluation as neither of these was asked for.

#### Question 2

- (a) The majority of candidates produced the correct answer, with clearly shown working. A noticeable number calculated the loss rather than the contribution ( $-\$1000$ ) either because they stated this was what they were doing or because they defined contribution as  $\text{contribution} = \text{price} - (\text{fixed costs} + \text{variable costs})$ . Some failed to attempt the question.
- (b) Those candidates that defined contribution generally went on to cite the result of their calculation in **Question 2(a)** and use it to show that continuing with Route 270 would result in continued contribution to the fixed costs associated with operating an airline. Correspondingly, stopping the route would mean those fixed costs would have to be spread across the remaining routes, thus increasing their costs. Many candidates supported this line of reasoning by referring to the loss per flight of \$1000 assuming costs were apportioned. This approach provided a sound basis for an argument for keeping Route 270. There were some good responses that produced arguments against keeping the route based on an analysis of market conditions – the competition, the losses and the policy of treating routes as profit centres. Other factors that were dealt with included the difficulty of competing with the low cost airline, though few candidates considered the possibility that AIAir may not be able to maintain the low prices for a long period. Few suggested what BAS might do to lessen the competitive threat from AIAir. Many candidates also referred to capacity utilisation and showed understanding of the concept. Many answers suggested that BAS increase this figure from 70% but failed to show understanding of why the decline might have happened or how BAS might do this. They thus avoided answering the question. Candidates who referred to the data in Table 1 regarding forecast economic growth or aviation fuel price almost all made errors. Most candidates wrongly understood that the forecast economic growth decline from 10% to 8% was a decline in GDP and/or incomes leading to lower demand for air travel. This is not the case. Most candidates assumed that the index numbers for fuel prices were actual prices in \$s, some making calculation based on this false understanding. These assumptions made it difficult to credit highly any discussion in answers. A few candidates failed to refer to their result from **2(a)** as asked for in the question and/or to give a recommendation.

#### Question 3

Many candidates started with a definition and/or explanation of outsourcing. This good start meant that most went on to consider reasons for businesses engaging or deciding not to engage in outsourcing. In order for application marks to be gained responses had to refer to material in the case that was not directly about "maintenance of aircraft" as this phrase was in the question. Failure to do this restricted application marks in many instances. Material that could be used included reference to the possibility of air crashes, the reduction in costs of 1%, the fact that other airlines had outsourced or the lack of regulation of outsourced businesses.

Some candidates cited the outsourcing of meals by BAS. The weaker responses assumed that outsourcing maintenance would be equally beneficial; the stronger ones qualified this argument by pointing out differences in the two functions.



There was often an unsubstantiated assumption that outsourcing maintenance would go to specialists and so would be carried out to a higher standard, or that BAS at present did no maintenance. The case study does not comment on the specialism of the businesses involved but the fact that many are unregulated could have safety implications was commonly referred to. Better answers linked the lack of regulation to the savings in costs, pointing out possible dangers for BAS, as well as that a saving of 1% might be too little to take that risk. Better answers discussed the possibility of changing exchange rates modifying the cost savings, the need to make redundancies in BAS maintenance staff and possible effects on brand image or industrial relations. More superficial responses tended to quote phrases from the case study. Evaluation was generally not well attempted, even where analysis had been displayed.

#### Question 4

- (a) (i) The majority of answers showed working and gave the correct figure.
- (ii) The majority of answers showed working and gave the correct figure.
- (b) A large number of candidates failed to attempt the question. Others gave an incorrect figure and showed no working. In many of these cases the figure they gave fell within the acceptable band for the trend line for Qtr4 2015 and an indication of how this had been arrived would have been credited. Most answers that showed working performed a variety of calculations that were incorrect – various averages of numbers, or various subtractions of numbers from the sales revenue data. These showed no understanding of what was required to calculate the required figure.
- (c) This question was generally not well tackled. Many responses did not contain reference to the specific question asked and referred only to the technique of moving averages, ignoring any other methods. Other answers contained reference to or explanations of other methods including Delphi and focus groups. Many considered the use of forecasting methods for purposes other than marketing decisions such as financial, budgeting, personnel and production decisions. Failure to answer the question will result in a low score. Better answers considered the other sources of information a marketing department might use, such as market research, analysis of economic conditions and internal information from other functional areas. These often went on to consider marketing decisions concerning the amount of planned promotion linked to falls or increases in forecast sales, often in seasonal patterns. Evaluation often consisted of an explanation that there might be factors acting to make a forecast invalid: not many answers went on to link this to marketing decisions. Few candidates appeared to realise that economic changes may well be taken into account in making a forecast. Few answers contained any in-depth evaluative comments that weighed up the usefulness of the techniques compared to other methods.

#### Question 5

This question asks for responses to a threat of industrial action. Many answers failed to address this issue, instead discussing the effect of the proposed changes on motivation, costs or organisation structure. These included answers that discussed the reasons why BAS might have made these proposals or why employees/trade unions might object to them. This content could attract analysis marks, but not if no possible responses to threat of action were suggested. Application marks were mainly awarded for mention and use of the following: heavily unionised/60% unionised workforce, poor relationship between unions and management, the holiday season in December and the premium nature of the BAS service. Suggested responses included: negotiation with unions, attempt to get a single union agreement, mediation, arbitration (internally or externally), laying off all those who would not accept the changes and hiring new staff who would, offering compromises on the changes e.g. free flights for family to be replaced by 50% normal ticket price, withdrawal of the proposals, postponing changes and negotiation until after December. Better answers then discussed the advantages and disadvantages of these proposals, ending with evaluative points, often a recommendation or a rank order of the suggestions considered. Weaker answers repeated phrases from the case study, made one or two suggestions and produced very weak or no analysis of them.

#### Question 6

This question was attempted by a minority of candidates. Many candidates gave a definition of corporate culture in the first paragraph but most then failed to use this in the following discussion. Culture is concerned with attitudes, beliefs and values and how these affect behaviour and organisation structure. Most responses contained implicit reference to this and did not draw out from the case study evidence that linked culture to success. Instead responses addressed changes including privatisation, introduction of CSR, delayering, enlisting stakeholders' support, acting as a premium airline and cutting out unprofitable routes. These



changes have all contributed to success but are not necessarily linked to culture. This failure to link changes in culture restricted the development of candidates' responses. Those candidates that did explicitly see such changes in terms of culture scored well. Examiners were prepared to reward implicit discussion of culture where it was obvious that the candidate showed understanding of how culture might be linked to these changes. Some candidates attempted to apply specific culture types (role, task, entrepreneurial, power) to the changes and this attempt was credited. Very few responses attempted to discuss the importance of factors other than culture change in relation to success.

### Question 7

All candidates attempting this question had some idea of the components of planning and/or objectives, often stating elements of these in the first paragraph. This is a sound approach. Many went on to give a theoretical answer that could apply to any business; the only application to this case study being a mention of "constantly changing business environment". As this phrase is in the question, such answers could not be rewarded for application. Others failed to refer to long term planning and wrote about short term plans including sales and cash flow forecasts, thus avoiding answering the question.

There were two approaches: one looked back on the role objectives and planning had played and one looked forward to the role these might play for BAS. Both approaches are acceptable. Many answers addressed elements of BAS success and focused either on planning or objectives. Few candidates made the point that good planning contains objectives. Weaker answers recited the history of BAS in a descriptive way, with marginal and occasional comments about the role planning had played. Better responses picked up on the change to a privately owned firm and the consequent change to profit making objectives and the role this played in changing behaviour. Most answers would have been improved by focusing on the material in the case study rather than on the role that planning and setting objectives play in general for any organisation. The topic was clearly understood but most answers did not apply this in detail to the case of BAS, hence top evaluation marks tended to be awarded only occasionally.

# BUSINESS STUDIES

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Paper 9707/32

Case Study

## Key Messages

- Candidates should show method for calculations.
- It is essential to cover the whole syllabus.
- Answers should be applied to the business described in the case material.
- Accounting data is an important element of the syllabus and candidates should be encouraged to practise interpreting the relevance of ratios to business.
- Marks are weighted towards analysis and evaluation. Evaluative comment is particularly significant for **Section B**.

## General Comments

Candidates clearly found some questions to be challenging and they continue to struggle to develop high scoring essays for **Section B**. It is worth emphasising that **Section B** questions carry 10 marks for evaluation. It is therefore important to structure answers with the aim to constantly make evaluative comment. Candidates might be well advised to include evaluation in each paragraph of their answers to either **Question 6** or **Question 7**.

**Question 1** proved difficult for many candidates this year. Gearing was widely misunderstood and there was limited understanding of the benefits of high gearing. Organisational structure also caused problems for candidates and some confused this with legal structure. Candidates need to better understand the concepts that are identified in the syllabus. This understanding can then provide a platform for developing relevant analysis and evaluation.

As in previous years, there were many examples of candidates who demonstrated a comprehensive understanding of the syllabus material. Others showed an inadequate grasp of business concepts and an inability to accurately define key terms.

Paper 3 always gives a significant number of marks for calculations and candidates are encouraged to set out their working when answering these, including stating any formula used. If candidates do not set out their working and have the wrong answer they are likely to score no marks for the question.

## Comments on Specific Questions

### **Section A**

#### **Question 1**

There were a number of very good answers to this question. Good candidates accurately defined gearing in terms of the ratio of debt finance to capital employed. Evidence from the case of GO's increase in gearing by 5% points was used to give some context to observations about high gearing. Many candidates were able to identify and explain some of the disadvantages of high gearing to a business such as the increased burden of interest payments and their impact on profits. Some answers then observed that the Government's anti-inflation policy could include an increase in interest rates and that this would be detrimental to GO due to its high gearing; this is a good example of adding application to an answer. A few good answers also considered the potential impact of high gearing on GO's plans for upgrading production equipment and their objective to pursue one or both of the growth strategy options proposed by the consultant. High gearing could potentially deter banks from further lending to GO. The average mark for this question was lower than in previous years. A significant number of candidates were unsure of the precise definition of gearing and

there were answers that simply repeated the equation given in Table 1 without demonstrating understanding of the equation. The question required candidates to consider both the benefits and the drawbacks of GO's high gearing ratio; many candidates were unsure of the potential benefits of high gearing. Few realised that it could be used to finance growth and that the rewards to shareholders could be high if growth proved successful.

## Question 2

The calculations were completed accurately by a large proportion of candidates. In a few cases marks were lost because working was not shown and therefore the 'own figure rule' could not be applied.

- (a) (i) There are still candidates that provide an answer without showing their working; candidates should be encouraged to state the relevant equation when attempting a calculation. There was some uncertainty regarding the calculation of the break-even level of output. In particular there was misunderstanding as to the nature of fixed costs with a number of candidates including the capital cost in the calculation and/or excluding the salary for production workers.
- (ii) Careful attention should be paid to the wording of the question. A few candidates calculated margin of safety based on maximum output rather than the 2014 output level.
- (iii) A significant minority of candidates did not give an answer to this question or were unable to identify appropriate methodology. An understanding of different ways of calculating profit is required of students. In this case it was necessary to understand how contribution can be used to calculate profit.
- (b) The case material provided a range of evidence that could be used to recommend which production system to purchase. Some of the answers were excellent with detailed arguments for and against investment in both systems before a justified recommendation was made. These answers tended to be selective in their use of argument and focussed on a small number of key issues rather than trying to address all possible factors. Where candidates attempt to review all of the case information and comment on all of the data in Table 2 there is a risk that commentary becomes superficial. In depth analysis of a few issues can score more highly than making lots of separate points. Candidates should remember that the mark allocation is weighted towards analysis and evaluation rather than knowledge and application.

## Question 3

Candidates were able to take a number of different approaches to answering this question. The majority of candidates focused on the influence of the marketing mix in determining the success of GO's entry into the consumer oven market. Such an approach was prompted by the case material which referred to the need for a completely new marketing plan. However, the question was not to devise a marketing plan but rather to consider the role of marketing in ensuring success. Candidates who just proposed a generic marketing strategy tended to lack focus on the question set and often failed to develop any relevant evaluation. Some answers repeated the information regarding GO's current marketing approach without analysing whether that approach was suitable for the consumer market. Thus there were many references to trade fairs and catering magazines without consideration of the different nature of the consumer market. Some good answers placed the marketing in context of competition from well established firms in the market and made reference to the importance of the Managing Director's experience in the consumer market. Alternatively, it was possible to approach this question from the perspective of other factors likely to influence success such as the state of the economy, household incomes, competition, the influence of exchange rates, the importance of quality and other relevant issues. Good evaluation was characterised by giving supported judgement as to the significance of different factors based on information from the case material.

#### Question 4

The answers to **Question 4(b)** typically required greater development and were over reliant on repetition of case material. The calculation was effectively attempted by many candidates.

- (a) (i) Most candidates were able to gain marks for a relevant attempt to calculate contribution. Many candidates were unsure which costs to subtract from revenue. Some candidates did not recognise that contribution required costs to be subtracted from revenue.
  - (ii) Over 90% of candidates correctly calculated the variance values for x and y.
  - (iii) Adverse and favourable variances were well understood.
- (b) Although candidates were able to identify the usefulness of budgets to an organisation in terms of allocating and reviewing financial plans, there were relatively few answers that commented on the rigidity of the budgetary system used by GO. Many answers assumed that the fact that managers did not adjust prices in relation to poor sales was a result of incompetent regional managers rather than a probable consequence of poor communication. Candidates should be encouraged to read and re-read the text with care before answering questions. Some answers tended to just repeat the data in Appendix 1 commenting, for example, that the sales had an adverse variance. Reference to data is important but candidates should aim to develop analysis of what the data shows in relation to the question.

#### Question 5

Appendix 2 stated that GO had a departmental organisational structure that was hierarchical and centralised. Some candidates focussed on this and considered whether such an organisational structure was appropriate for the expansion plans of GO. They recognised that expansion into a foreign country might benefit from giving more control to managers in that country as they would be more likely to have an understanding of the market. Good references were made by some candidates to alternative approaches such as using a matrix structure. These candidates were able to demonstrate an effective understanding of the consequences of different types of organisational structure. A large proportion of candidates were not equipped with knowledge of this area of the syllabus. A common error was to discuss the benefits and drawbacks of changing the legal structure of the business to a plc. This showed a fundamental misunderstanding of subject content and did not, therefore, answer the question. It is essential that candidates are familiar with the broad range of concepts included in the syllabus.

#### Section B

#### Question 6

This question was preferred by the majority of candidates. The nature of strategic analysis is well understood by candidates and most are particularly familiar with SWOT and PEST analysis. Thus, answers were able to explain the internal and external influences on business. Candidates could improve their answers by providing better application to GO and further developing depth of analysis. Candidates often provided very generic responses and many answers were descriptive of these techniques rather than analytical of their role as part of making decisions about future growth strategies. There was also a tendency to repeat large parts of the text, in particular to draw heavily on Appendix 2 without providing any relevant interpretation.

#### Question 7

Elements of strategic management were well understood by many candidates. There was an appreciation that strategic management involved strategic analysis but this was the extent of the knowledge of some candidates. Consequently a large number of those who did tackle the question provided an answer that was similar to that of those answering **Question 6**. This resulted in answers that lacked balance, with too much time given to lengthy explanations of strategic analysis but only limited comment on the importance of strategic choice and strategic implementation. A few candidates focused on the role of managers rather than strategic management.

# BUSINESS STUDIES

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Paper 9707/33

Case Study

## Key Messages

- Practise applying theory concepts within the case study context. This can be achieved through the use of past papers and mark schemes. Advise candidates to spend the first 15–20 minutes of time allowed reading the case study and that they return to the relevant parts before answering each question.
- The use of numerical analysis, such as ratios and financial calculations, should also be supported by an explanation of what the results or changes **mean** for the business or project in question. An integrated approach, that relates financial calculation from one part of the case, should also be analysed in the context of the company finances overall.
- A good evaluative answer includes detailed application, as well as judgments throughout and a well-supported conclusion at the end. Candidates should return to the exact question before writing their final conclusion to ensure that this is addressed, especially in the **Section B** essays where the longer answers sometimes lose focus on the question.

## General Comments

There was a wide range of performance. There was evidence that some centres had prepared candidates fully and effectively by wide syllabus coverage and also encouraging the use of evidence from the case study to support their answers. In contrast, there were some answers that reflected a more general approach, much less focused on the case study and more inclined towards generic 'text book' knowledge and analysis. Success in this case study paper depends very much on the candidate's ability to root their answers firmly within the circumstances and events outlined in the case study, once the essential subject knowledge has been demonstrated.

It is also important for candidates to read the questions carefully and show judgment when required. Better evaluative answers link different parts of the case together and take a strategic overview of the business, objectives and future plans.

Centres can improve candidates' performance in the important skills of application, analysis and evaluation, by encouraging them to work through past paper 3 examinations and assessing answers using published mark schemes. The importance of answering the exact question asked should be emphasised, as fine focus saves time and is key to good results in the case study paper.

## Comments on Specific Questions

### Section A

#### Question 1

This question was well answered by some candidates, who related their answers accurately to depreciation (fall) in the external value of the currency. Application marks were generally gained by appreciating that FFF both exports to country B and also sometimes imports from country C in the case of a poor harvest and expanding on what was in the case. This, in many cases, led to analysis marks along the 'good for exports, bad for imports' argument, but virtually no candidates considered the possibility of FFF changing price, even to gain extra profit from exports. There was evidence of confusion in the understanding of exchange rate changes, typically candidates believed that FFF may receive less revenue from exports. However, a few better candidates broadened their analysis to consider other areas where FFF's costs could increase, due to the need to buy materials of equipment from abroad or paying for building a new factory in Country B.

#### Question 2

- (a) (i) Some candidates were able to perform the necessary two stage calculation, but in some cases this was omitted, or inaccurate.
- (ii) More candidates calculated this accurately.
- (b) This question led to a wide range of answers, sometimes linked to the results from **part (a)**, but often using other financial data from the case. Better answers analysed changes and compared dividend yield and price earnings ratio with country averages and came to conclusions, typically short term 'safety' versus long term 'gain'. Some also mentioned influence of shareholders at the AGM as being important. However, there was evidence of some misunderstanding of both measures and what they may mean for shareholders of a business and the decisions they may make. Some candidates also misunderstood the possible financial impact on the company of shareholders' decisions to sell/keep their shares.

#### Question 3

The concept needed for this question was lean production and the possible role of these methods in solving the problems being experienced by FFF. Application marks were achieved by relating possible techniques such as JIT, TQM, simultaneous engineering, and kaizen to the problems, such as out of date inventory. Better responses identified problems that could (e.g. quality and out of date inventory) and could not (e.g. seasonal nature of harvest, machine breakdown) be solved by lean production techniques. Evaluation comments included that big changes, as well as increased costs in the short term, would need to be borne in the business in order to employ these techniques and questioned whether staff would be trained and motivated enough. However, there was some misunderstanding of lean production and techniques which may come under this heading. Often 'cutting down waste' was mentioned, but without specific techniques that might achieve this. Some candidates, who presumably had not learnt about this topic, focused instead on other methods to solve production problems.

#### Question 4

- (a) There were some completely correct answers to this 'special order' question, but also evidence of misunderstanding of the concept of contribution as well as arithmetical errors. The most common mistake was to include the allocated fixed costs of \$0.10 in the. Many candidates had spent some considerable time answering this question, but achieved only a low mark for a formula or attempted calculation.
- (b) Better candidates were able to do the financial contribution calculation part of this question and typically went on to consider the advantages and disadvantages of accepting the order. There were plenty of references to the benefits to FFF of building a relationship with the big supermarket chain and the disadvantages of increasing capacity utilization to 95%. However, very few candidates commented on the small contribution to profit in relation to the company's overall annual profits, indicating a focus on one part of the case (Table 2) rather than a more integrated approach.



Candidates who did not correctly calculate the contribution were still able to achieve some marks for analysing advantages and disadvantages from the case.

### Question 5

This question was very accessible and most candidates showed an understanding of how sales forecasting could improve workforce planning, in terms of how many workers to employ at different times of the year. Application marks were often gained by suggesting sales forecasting methods and how they could work with reference to previous years' figures and expected seasonal variations. Many candidates also mentioned unpredictable events that could render forecasting inaccurate, such as bad weather. However, very few candidates mentioned that the human resources needs for the harvesting and the factory work were likely to be different, or the fact that there was no mention in the case of any sales forecasting being carried out. The flexible workforce was also mentioned by better candidates, together with observations such as the need for FFF to offer more full time contracts in the falling unemployment conditions. Fewer candidates recognised possible limitations (other than unpredictable events) of sales forecasting in this environment, or the impact of staff on short term or casual contracts leaving at short notice. Also, the possibility that FFF's long experience in the industry may mean less need for use of formal techniques was a useful evaluation point, mentioned by very few candidates.

### Section B

### Question 6

This was by far the most popular choice of the **Section B** questions, a choice for FFF between two possible growth strategies. Appendices 1 and 2 provided a wide range of information on each option, but candidates needed to do more than just repeat from the text to gain application marks. A good start in better answers involved calculating and commenting on the Expected Monetary Values of each option. Application marks from Appendix 2 were typically achieved by making links between the data in the Appendix and other information in the case. For example, strategy 1 requires FFF to use meat as well as its own vegetables in the ready prepared meals. The company has no experience of this type of production and inventory problems, e.g. 'sell by' dates will become more important and health problems caused by out of date inventory could potentially be more serious where meat is involved. Analysis marks were gained by most candidates who were able to use their knowledge of Business concepts to explain the likely impact of factors such as estimated internal rate of return and average rates of economic growth on the decision making process. However, there was some evidence of misunderstanding, for instance commenting on 'low economic growth' or even 'low GDP', rather than drawing out the point that these rates of growth 4% and 6% are actually quite favourable. Most candidates drew some justified conclusion as to which option was better but these were generally not fully supported, although a small number of the best candidates did consider short/long term prospects.

### Question 7

This question, about contingency planning, was a less popular choice. There was some evidence that this concept is often covered very much in overview, rather than applied to specific situations. However, application marks were accessible, for instance by identifying the main risks attached to each of the growth strategies and comparing them. For instance which is more likely, trade union action in country B or meat supplier problems in country A? Which might be easier to plan for? There were very few excellent answers to this question, but those who scored high marks typically identified ways in which FFF could have limited the company's liability in past situations, such as the food poisoning. Some also suggested future applications, for instance by having good back-up plans in the case of serious equipment breakdown, failed harvests or even more catastrophic natural disasters. Having said this, better answers identified that it is 'impossible and impractical' to cater for all possible events, especially those that have a low probability of occurring. Also the possible cost of contingency planning, in terms of consultancy, was not really specifically applied, except in the best answers. Good conclusions that linked contingency planning with the achievement of long term growth objectives were very uncommon.