CAMBRIDGE INTERNATIONAL AS AND A LEVEL BUSINESS

> **Paper 9609/12**
> **Short Answer and Essay**

Key messages

1   It is important that candidates spend a little time in determining what a question is really demanding in terms of business information, concepts, analysis and evaluation. This is particularly important in **Section B**. **Question 6** on this paper, for example, required a discussion of a controversial statement relating to motivation. Many answers made little or no reference to the statement and simply presented an essay on motivation theory. As a result these answers were limited at best to half of the marks available.

2   Again in relation to **Section B** of the examination paper, many candidates are not accessing the marks awarded for 'analysis' and 'evaluation'. Presenting relevant discussion without analysis or evaluation significantly limits the marks that can be awarded. Candidates should carefully study what it means to **analyse** (explain in detail, identify impacts ad outcomes, interpret situations, explain interrelationships, unpack constituent parts of concepts, identify meanings, draw inferences) and **evaluate** (critique, assess importance, make reasoned judgements, make recommendations, make a judgement) relevant business concepts and information.

General comments

Section A

Question 1

(a)   Most candidates were able to give an accurate definition of market research. Many included the two types of primary and secondary in their answer and some developed the purpose of the research. These points were credited if there was also reference to the collection and analysis of data about customers, competitors, and the market for a product/service.

(b)   Most candidates managed to gain two or three marks. A few answers confused primary and secondary research and there was a tendency in several to give a lengthy definition of secondary market research followed by an undeveloped statement of two limitations. 'Out of date' and 'not fit for current purpose' were popular limitations given in sound answers.

Question 2

(a)   Most candidates were aware that working capital refers to the finance required to pay for day-to-day expenses such as wages and the purchase of raw materials. Many also presented an accurate formula. Incorrect answers often defined working capital as 'costs' or 'expenses' rather than available finance.

(b)   Most candidates could differentiate between revenue and capital expenditure and earn two or three marks. Most explanations included reference to short term versus long term, day-to-day versus infrequent giving examples. Strong responses also often correctly identified how each would be treated in financial accounts.

Question 3

The full range of marks was awarded on this question. Most candidates could earn one mark for a definition of the mission statement and/or a multinational business. Although some mistakenly thought a mission statement contained detailed objectives and measures to achieve them. There was some confusion here between a mission statement and a business plan. Strong answers referred to a mission statement acting as a unifying force for a multinational company operating in a number of countries across the globe. The importance of a mission statement is to ensure that employees in many different countries have the same understanding of the vision an goal of a company. There were some very good five mark answers that emphasised the particular importance of a mission statement to a multinational business.

Question 4

(a) Generally, both marks were awarded here. Some candidates drew a diagram which was rewarded if correct. A simple statement that economies of scale occur when there is a decrease in the average unit cost as a result of an increase in the scale of production was sufficient for two marks. Weak answers often referred to 'benefits' rather than cost reductions gained by a business as a result of increased scale of production. Such answers provided only a partial definition of economies of scale.

(b) Many candidates started with a definition of diseconomies of scale and although there were no marks awarded for these definitions, they often provided a good context for the causes of diseconomies of scale. Causes leading to diseconomies presented and explained in sound answers included poor communication, alienation of workers and poor coordination arising directly from an increase in the size of a business. There was, however, a considerable degree of misunderstanding about diseconomies of scale. Many answers incorrectly explained diseconomies as the negative effects of producing at a lower/smaller scale of operation and some answers identified causes involving general management or economic problems.

Section B

All questions seemed to be popular with perhaps **Question 7** attracting more candidates than **Questions 5** and **6**.

Question 5

(a) The majority of candidates were able to gain at least Level 2 marks with a limited explanation of the strengths and weaknesses of a PLC, although some did get confused with public corporations/government owned businesses. Moving to Level 4 wasn't easy for many as their answer was a good explanation of many points for and against but with little or no analysis. Sound answers cited the ability of a PLC to sell shares to the public and then went on to analyse the implications and significance of that in terms of raising finance to support expansion and the more negative possibility of weakening the influence/control of existing shareholders.

(b) Not too many candidates successfully put the two parts of this question together – ethics and private sector banks. There were some good explanations of why business in general should take ethical decisions but knowledge of the role of private sector banks in society seemed to be limited. Sound answers often referred to banks behaving ethically by giving loans to small businesses and giving loans at preferential rates in contrast to those banks that might pursue speculative financial activities in pursuit of large short term profit. There were some good attempts at evaluation, considering the effect of ethical banking decisions on the profits of the bank long term as a result of social recognition of ethical behaviour.

Question 6

Most candidates that attempted this question showed some understanding of Maslow's theory of motivation with some comparing and contrasting it with other motivation theories. This often formed the basis for analytical comment and discussion and some attempt to evaluate the relevance of Maslow to success in all businesses. Many answers however simply analysed the effectiveness of Maslow's theory at motivating workers so gaining Level 3 marks, but did not consider the statement that the implementation of Maslow's needs theory could ensure success for all businesses. Sound answers identified and recognised factors other than employee motivation that could affect business success. Factors such as the quality of leaders/managers in a business, the effectiveness of product design and quality, the effectiveness of marketing/investment strategies, and the nature of the market and economic environment were used to present a strong evaluative conclusion.

Question 7

(a)   This was a popular question and the concept of a USP was widely understood although a few answers suggested that it only referred to a unique place from which to sell or produce phones. Some gave many examples of a USP but not always connected with mobile phones. Sound answers recognised the potential to make phones stand out and therefore support a premium pricing strategy, and/or strengthen a brand image, and/or boost the sales of other products from the same company. Level 4 marks again seemed quite difficult for many candidates to achieve due to the lack of development of explanations into analysis.

(b)   Some answers discussed **why** customer relations are important rather than **how** to improve them. Sound answers however referred to specific experiences that a customer might have in a retail store and suggested methods to improve satisfaction around these experiences. Such explanation and analysis led to improvement proposals such as better trained employees, more personal attention and service, and more effective after sales service. Other suggested measures of customer relations improvement included the securing of customer feedback and acting upon that information. Sound answers that were rewarded with Level 3 and 4 marks identified, analysed, and evaluated the potential effectiveness of such measures against the cost and likely success of these measures. Some answers used CRM and the 4Cs as effective context concepts to frame their answers.

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> **Paper 9609/22**
> **Data Response**

Key messages

- The data is in the case study to help candidates place their answers in the context of the given business. This is especially important for **Questions 1(b)(ii)**, **1(c)**, **1(d)**, **2(b)(ii)**, **2(c)** and **2(d)** where a lack of context will mean answers can gain only half marks or less. For example, in **Question 2(c)**, candidates needed to analyse one advantage and one disadvantage *that would be applicable to CT*, not generic advantages and disadvantages.
- Candidates too often make a point and do not take it far enough. For example on **Question 1(c)** where many candidates correctly identified a disadvantage of introducing CAM but did not show the full impact on CT. It leaves the reader asking 'so what?' Candidates need to take each point further and analyse the likely impact on the specific business, in this case an ice cream manufacturer. This analysis should be a logical chain of effects, often ending in the impact on costs, sales and ultimately profits for GI.
- Analysis is about building up arguments and showing the impact or effects on the business. Evaluation is, therefore, about judging the relative merits of different arguments and coming to an overall conclusion that answers the question. This process of evaluation does need to happen just at the end of an answer. Really good answers evaluate throughout, weighing up the arguments as the candidates presents each argument.
- Centres must prepare candidates to respond at the right level for each question. On this specific paper:
    - **Question 1(a)(i)** and **Question 2(a)(i)** both require a definition. This is a simple repetition of a learned definition, no explanation or application is required. A good definition (learned from a textbook) is usually a sentence with nothing else required. Vague, imprecise, or unfocussed definitions will not receive both marks.
    - **Question 1(a)(ii)** and **Question 2(a)(ii)** both required an explanation without using the case study. Each part has three marks and candidates should aim for a detailed definition and an example, not related to the case as this will often show no understanding, especially as it may be copied from the text.
    - **Question 1(b)** and **Question 2(b)** both required calculation and then a question related to that answer. It is always advisable to use or refer to that answer in the second question. Candidates must answer the second part in context.
    - **Question 1(c)** and **Question 2(c)** both required analysis in context. Candidates should aim for two well analysed points. A good answer *does not* require a conclusion or any evaluation.
    - **Question 1(d)** and **Question 2(d)** both required evaluation based upon good analysis in context. A good answer will often benefit from a conclusion.
    - **Questions 1(d)** and **2(d)** now have 11 marks. This makes evaluation based on good analysis even more important.

General comments

There is a great deal of data compacted into each of the two scenarios (**Question 1** and **Question 2**). Candidates must spend a reasonable amount of time reading and understanding the data before attempting the questions. It is not unreasonable for candidates to spend five minutes on each piece of data before writing any response.

The contexts of Gourmet Ices (GI) and Clean and Tidy (CT) were well understood and candidates were able to access relevant information to use in their answers. However candidates were inconsistent in their use of the contexts. The data in **Question 1** was used better than the data in **Question 2**. This may have been through a lack of revision in the topics questioned in **Question 2**.

Answering questions in context is essential in this examination and is the basis for good analysis and evaluation. Without context a candidate cannot gain more than half of the marks available on the whole paper.

Comments on specific questions

Question 1

(a) (i) 'Partnership' was a well understood term and most candidates were able to identify characteristics that defined this form of business ownership. However, many candidates did not go far enough to distinguish their definition from one of the other forms of ownership – most commonly a private limited company. A correct definition should make it clear that the term being defined cannot be confused with another similar term. The aspects that separate a partnership from a company concern incorporation. For example, a partnership has unlimited liability. Any of these aspects together with ownership by more than one person makes it clear that the candidate has defined a partnership.

(ii) Crowd funding is a relatively new term to the syllabus and very relevant to new businesses today. Most candidates knew the term and could explain relevant characteristics. Some candidates spent too long on this question, wasting time that could have been used later in the paper. Where candidates did not gain full marks, it was often due to a lack of clarity over who was providing the finance.

(b) (i) This was generally a well answered question. Candidates who knew how to calculate break even found this question straightforward. However, there were a significant number of candidates who did not know the formula and tried a variety of calculations that often had no relationship to break even. Some candidates answered this in terms of $s, not quantity. Whilst this was not penalised, as long as the number was correct, this shows a lack of understanding over the use of the technique which often hampered answers to **Question 1(b)(ii)**.

(ii) Most candidates knew how break even could be used, but relatively few added context to their answer. This was especially surprising since the previous question gave an excellent piece of context could have been used. Where a question is related in this way, candidates should aim to use their calculation to answer the second part. Where a question refers to the case study, context must be used to gain full marks. In this case the benefit was to GI so a generic answer only gained a single mark.

(c) This was an analysis question. Analysis is about consequences, reaction or impact. In this case, candidates needed to analyse two disadvantages to GI of introducing Computer Aided Manufacturing (CAM). Whilst the knowledge of CAM was generally good, the ability to analyse the likely consequences to the business was relatively weak. Many candidates picked up the possible reduction in quality but did not take this point far enough to show what the full impact might be on GI.

Too few candidates noticed the extra costs involved with the introduction of CAM. In this case, fixed costs would increase by $10 000, which could have a significant impact on the business. Some candidates understood that there would be an extra cost involved but failed to contextualise their answer which, again limited their analysis.

(d)   This question required candidates to come to a recommendation or judgement about which offer Tom and Amy should accept. Full marks could be gained by recommending either option (or neither) as long as candidates had gone through the process of building up good analysis of arguments for both sides and then come to an evaluative and justified conclusion.

One of the best approaches was to analyse the advantage(s) of both offers, then the disadvantages of both offers and evaluate both arguments coming to an overall recommendation. One analytical argument/point for each side was enough to gain all the marks and candidates should focus on providing one or two good arguments which have a number of analytical steps, rather than many arguments that waste valuable time in the examination. To this end the skill of choosing the best arguments to use is one that should be taught and practised. Candidates do not need to tell the examiner how much they have learned. We can assume that by choosing the best argument that the candidates know the other, less relevant ones.

Context was very well used in this question, mainly because candidates often started with the data rather than trying to add it into a generic answer.

Question 2

(a) (i)   'Profit margin' is the syllabus term that has replaced 'net profit margin' and should be taught as such. As this is a fairly new change to the syllabus, candidate who referred to gross profit were not disadvantaged. However in future series, candidates will be expected to understand the difference between the profit margin and gross profit margin.

The most important aspect of the profit margin is that it is not a measure of profit, but *profitability;* a distinction which is vital in A Level Business. This distinction was not fully understood by many candidates.

(ii)   Above-the-line promotion was often mistaken for below-the-line promotion and the examples used were often incorrect. The essence of above-the-line promotion is that a media is used to communicate with the public. This may involve payment but it is not a requirement of above-the-line promotion. For candidates who fully understood the term, full marks could easily be gained. the most common method of gaining three marks was to explain that this was communication from a business to a customer/the public using a media and give an example.

(b) (i)   Price elasticity of demand always reveals those candidates who do not fully understand the concept. The most common mistake is to invert the formula which tends to give an opposite answer. The actual answer of 0.4 was inelastic and this relationship can be seen in the proportionate change between the two figures in Table 2. Those candidates who inverted the formula gave an answer of 2.5 which is an elastic response. This is an easy mistake to make, but it shows that candidates are not checking their working and do not fully understand what the result is showing.

(ii)   This question did not require candidates to show how price elasticity of demand is calculated. Those candidates who wasted time repeating the knowledge they had shown in **Question 2(b)(i)** often did not get round to actually explaining a use of the calculations. Good candidates used their answer from **Question 2(b)(i)** to state that this showed an inelastic response so that CT would know not to further reduce the price of the service and perhaps to increase it in the future.

The 'own figure rule' is always applied to questions where a calculation can be used which was the answer to a previous question. This means that a candidates who gets a wrong answer to **Question 2(b)(i)** can use that answer in **Question 2(b)(ii)** without any penalty. This may give them a seemingly false response to **Question 2(b)(ii)** but it is fairer for the candidate. Therefore, all Centres should encourage their candidates to use the answer to the calculation questions in subsequent questions if it is relevant, even if the candidate is not fully confident of their answer.

(c)   This was a question which had several different routes to the answer. Candidates could look at this from a motivational point of view, a finance perspective (in terms of raising additional capital), a communication and management issue or any other relevant direction. Context was poorly used in this question and candidates really needed to read and understand the data to be able to think of how this might advantage and disadvantage CT. Weaker responses were generic and could have been applied to any business in any market. This type of answer could not gain more than half of the available marks.

(d)   Candidates appear to enjoy writing about the marketing mix and most could write about the 4Ps or 4Cs. However, this led to many long answers that went little way to answering the question about how the marketing mix might actually change. The best answers focused on the elements of the marketing mix that would give CT an advantage if targeted the industrial market. This could have just focused on one or two of the elements of the mix and by focusing the answer, candidates would have given themselves more time to analyse and evaluate, which is the essence of getting a high mark on the longer questions. Just because the question refers to the marketing mix, does not mean that a candidate needs to cover all of the mix. In some cases, candidates described all 4Ps and all 4Cs. This showed excellent knowledge but left no time for the higher skills and answering the question in context.

Where evaluation was shown it was usually by weighing up the relative merits of the proposed changes to the marketing mix, or by suggesting one change was more important to CT than another.

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Paper 9609/32
Case Study

Key messages

- Candidates should show method for calculations
- Take care when interpreting change in data
- There is often two parts to a question. Candidates should ensure that they follow directives to refer to calculations and other information

General comments

The overall standard of student responses was good. Candidates managed their time effectively with the majority providing answers that suggested an appropriate division of time between questions. Understanding of business concepts was evident in the majority of answers. The case study was effectively used to provide appropriate application. Differentiation between candidates was most evident within the quality of analysis and in particular evaluative comment. The best responses demonstrated that those candidates had learned to apply quantitative techniques.

Section B, with its emphasis on strategic management and weighting towards evaluation marks, continues to challenge candidates. However, there were a number of notable examples of candidates achieving over 17 marks demonstrating sophisticated evaluation of strategic choice techniques or contingency planning.

Comments on specific questions

Section A

Question 1

This proved to be an accessible question with a majority of candidates gaining seven or more marks. Candidates approached the question in a number of ways, with some providing a definition of opportunities and threats within the SWOT framework. Others started by defining key terms, such as unemployment, before then commenting on how the changes in Appendix 1 might affect SA. Although the terms in Appendix 1 were broadly understood, a number of candidates misinterpreted the data and consequently developed chains of argument that did not accurately analyse the impact of the economic changes given. For example, a significant number of candidates analysed the forecast change in growth in real GDP as being a fall in GDP rather than as a decrease in the growth rate. Many candidates also referred to the predicted decrease in the appreciation of the currency against the euro as representing a decrease in the future value of the currency. It is essential that candidates take time to consider the data provided and recognise that a slowing rate of growth is still growth.

Overall most candidates gained full marks for knowledge and at least two marks for application. Many candidates applied the forecasts effectively to SA by referring to, for example, increasing rates of inflation resulting in increasing costs for SA of purchasing aviation fuel and facing increased wage demands from pilots and cabin crew.

Some candidates provided detailed analysis of all five economic measures; this often resulted in extended answers that had achieved full marks long before the end of the response. The best answers provided concise balanced analysis and focused on one opportunity and one threat to SA of the forecast data. Low level application was demonstrated by identifying the changes shown in the forecast data.

Question 2

Many candidates gained full marks on this question with accurate calculations of net present value (NPV) and the new gearing ratio. The majority of candidates provided full working of their answers and were thus able to acquire marks under the own figure rule if they made numerical mistakes. Nearly all candidates provided a formula for the gearing ratio further demonstrating an appreciation of good exam technique.

(a) (i)   Calculation of NPV was well understood. Discount factors were accurately applied to the data provided. Some candidates deducted the residual value of the aircraft from the net cash flow for year six and thus gained only three of the four marks.

   (ii)   A number of different formulae were identified by candidates. Some candidates only added the $80m loan for the aircraft to the numerator in the gearing ratio equation. A few candidates calculated the existing gearing ratio.

(b)   The case material provided a range of evidence that could be used to recommend whether to purchase or lease the two aircraft. Some candidates usefully started their response by defining terms and explaining the difference between lease and purchase. This approach tended to draw out some of the generic benefits of leasing such as the possible inclusion of maintenance of the aircraft and benefits of purchase such as ownership of assets. Many good answers to this question included effective application by using case data to make relevant calculations such as the payback period and the change in gearing if a loan of $80m was taken to purchase the new aircraft. Better answers then considered issues such as the impact of leasing or purchasing on the need for financing and how the forecast increase in interest rates might affect cost, particularly of the option to purchase. Evaluative comment often went no further than identifying that investment appraisal favoured one option or the other. Better evaluation was developed in some responses through balancing a range of factors and then justifying why one issue was more significant, for example, asserting that with rising interest rates, financing the purchase of the aircraft would be difficult.

A few candidates were limited in the marks they could achieve by not using their answer to **Question 2(a)** in their argument. To access full marks for analysis and evaluation it is essential that candidates both refer to their results from **Question 2(a)** and use other information from the case.

Although there was a good understanding of the difference between leasing and purchase a number of candidates assumed that a leased aircraft must be inferior to a purchased aircraft as it would be older. This could be true but there was no evidence in the case study to suggest that.

Question 3

This proved to be a difficult question. The focus of this question was the need for a detailed marketing plan to ensure a successful launch. Weaker answers tended to outline a detailed marketing plan providing extended analysis of different elements of the marketing mix. These answers typically gained full marks for knowledge and application but gained only limited analysis and evaluation marks because there was limited focus on the question. Although answers often provided justification for a specific approach to marketing the new international routes there was little or no consideration of whether a marketing plan could ensure a successful launch.

Good answers not only identified the elements of a marketing plan but also provided balanced analysis of its likely effectiveness with reference to factors such as the degree of competition faced and the state of the economy. Evaluation was further developed through consideration of whether SA, as a domestic airline, would have the skills and knowledge to enter the new market.

CAMBRIDGE
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Question 4

(a) Many candidates accurately calculated the average total revenue for one international flight. It was essential to show method for this question as there were a range of acceptable answers depending on candidate decisions regarding rounding of the forecast number of business and economy class tickets sold. A few candidates calculated average revenue based on the existing configuration of the aircraft.

(b) A common response was to assert that as business tickets were priced at $400, whereas economy tickets were priced at $150, SA should increase the number of business seats for the proposed international routes. Some candidates provided further support for their recommendation by referring to the market research which suggested that capacity utilisation for business class would be near 100%. A more sophisticated response, demonstrated by a small minority of candidates, was to analyse the data in more depth. For example, a few very good answers recognised that for every extra business seat on the aircraft the opportunity cost was three economy class seats. Therefore, assuming flights operated at full capacity, one extra business seat would lead to a reduction in revenue of $50 at the proposed ticket prices. Good answers also applied case material effectively by considering SA's current USP and commenting on the likely impact on cost of staffing if more business travellers were to be accommodated.

Question 5

Candidates demonstrated a good understanding of the nature of flexible contracts and were generally able to identify the impact on SA's costs of paying employees only when needed. Comments were also made on the likely impact on motivation of employees with useful references to the complaints made by some workers. This was developed by some better answers in context of a possible deterioration in customer service on flights and the potential impact on demand. However, the majority of candidates needed to develop more extended lines of reasoning in order to move their answers into level 2 analysis. A few candidates considered whether recruitment of junior pilots and cabin crew would become more difficult due to the forecast economic growth and falling unemployment in SA's home country. Evaluation typically focused on cost but was rarely developed or balanced by other considerations such as labour market conditions faced by SA.

Section B

Question 6

Candidates generally provided accurate definitions of contingency planning. Application was demonstrated by referencing the risks faced in the airline industry from computer problems and bad weather highlighted in the case study. Analysis could then be developed by considering the consequences of SA not preparing for these unforeseen events. Candidates were also able to identify problems associated with contingency planning such as cost. Many candidates, through this process, were able to gain all of the knowledge marks and at least two of the application marks and two of the analysis marks. The best answers developed higher level application and analysis through outlining the potential risk to SA's reputation and future sales if there was no contingency plans to draw on in case of serious unforeseen events such as crashes. General evaluative points were made such as recognising that SA could not prepare for all eventualities. The very best answers commented on the importance of the likelihood of events occurring and that, in the case of an airline, accidents had greater potential to be disastrous.

Question 7

The nature of strategic choice was well understood by candidates and most were familiar with Ansoff's Matrix, Force Field Analysis and Decision Trees. Candidates gained application marks by categorising each option within Ansoff's Matrix. This naturally led onto an analysis of the importance of risk in strategic choice. Good answers developed analysis of how these techniques contributed to effective decision making but also explored the extent to which the techniques were reliable and commented on other information that might be required by decision makers within SA. However, most candidates included only limited evaluation of the techniques. Some candidates simply stated that each technique was either important or not important without providing supporting evidence. The best candidates attempted to provide evaluation of each technique within the main body of their answer highlighting, for example, the potential subjectivity of Force-field analysis.