

MARK SCHEME for the October/November 2006 question paper

9707 BUSINESS STUDIES

9707/03 Paper 3 (Case Study), maximum raw mark 100

This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which Examiners were instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began.

All Examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes must be read in conjunction with the question papers and the report on the examination.

The grade thresholds for various grades are published in the report on the examination for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level syllabuses.

- CIE will not enter into discussions or correspondence in connection with these mark schemes.

CIE is publishing the mark schemes for the October/November 2006 question papers for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level syllabuses and some Ordinary Level syllabuses.

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1 (a) Briefly explain how Sally might have forecasted demand for low priced flights for the next two years.

[8]

	Knowledge	Application	Analysis
Level Two	Good knowledge shown of forecasting method(s) [3-2 marks]	Good application of methods to case [3-2 marks]	Good use of theory/ B.St reasoning to explain answer [2 marks]
Level One	Some knowledge shown of forecasting methods(s) [2 marks]	Some application of methods to case [2 marks]	Limited use of theory [1 mark]

Answers could include:

- Using past sales data to extrapolate into the future e.g. simple line of best fit or moving average method to establish trend and seasonal variations.
- Market research as a basis for future forecasts – either from own customers or using industry based data.
- Use PED to forecast sales if prices are changed.

(b) Assess the usefulness of sales forecasting to LoCost Airways.

[8]

	Knowledge	Application	Analysis	Evaluation
Level 2	Two benefits identified [2 marks]	Both applied to case [2 marks]	Good use of theory/ B.St reasoning to explain answer [2 marks]	Good judgement shown of potential benefits or problems [2 marks]
Level 1	One benefit identified [1 mark]	One applied to case [1 mark]	Some use of theory [1 mark]	Some judgement shown [1 mark]

Answers could include:

- Helps to reduce uncertainty – can such rapid growth in this industry be sustained?
- Assists in business planning e.g. leasing of aircraft and recruitment of pilots.
- BUT: Economic conditions? Actions of competitors? Accuracy of method used? Fuel costs?

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2 (a) Using the data in Appendix A calculate variances for the car hire division.

[5]

	Variance \$000
Sales revenue	(9) A
Variable costs	(3) A
Promotion	2 F
Other overheads	(2) A
Profit variance	(12) A

1 mark for each which must include either the "sign" or "adverse/favourable".

[5]

(b) Using your results from a), analyse briefly why profits for the car hire division were less than budgeted.

[5]

	Knowledge	Application	Analysis
Level Two	Two relevant points made [2 marks]		Good use of theory/ B.St reasoning to explain answer [2 marks]
Level One	One relevant point made [1 mark]	Some application to case [1 mark]	Limited use of theory [1-2 marks]

Answers could include:

- Lower than expected prices – reduces revenue – depends on PED.
- Lower than expected number of customers – poor market research or competitors actions changed.
- Labour costs higher than budgeted.
- Overhead costs – e.g. higher administration or salary costs.
- Promotion – spent less than budgeted – could this be the cause of the lower sales?

(c) Discuss TWO ways in which this division might be made more profitable.

[8]

	Knowledge	Application	Analysis	Evaluation
Level Two	Two relevant points made [2 marks]	Both applied to case [2 marks]	Good use of theory [2 marks]	Good judgement shown in answer [2 marks]
Level One	One relevant point made [1 mark]	One applied to case [1 mark]	Some use of theory [1 mark]	Some judgement shown [1 mark]

Answers could include:

- Higher/lower prices – depends on PED.
- More promotion – depends on Adv.ED.
- Lower costs – but will this reduce the quality of the service offered?
- Change another aspect of marketing mix – perhaps the model of cars is inappropriate?

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3 The different stakeholder groups of LoCost Airways will be affected in very different ways if the firm is sold to UWA. Discuss whether it is in the best interests of LoCost Airways' stakeholders for UWA to take over the business. (You might find data in Appendix B helpful).

[16]

	Knowledge	Application	Analysis	Evaluation
Level Two	Good knowledge of stakeholder interests shown [3-2 marks]	Good application of points to case [3-2 marks]	Good use of theory to explain answer [5-3 marks]	Good judgement shown in answer [5-3 marks]
Level One	One or two relevant points made [1 mark]	Some application made [1 mark]	Some use of theory to explain answers [2-1 marks]	Some judgement shown [2-1 marks]

Answers could include:

- Different stakeholder groups have different interests and objectives.
- Owners: Will they make more money from sale of airline and UWA shares than from keeping the business. Do they want the stress of managing the business? Dividend higher with LoCost – but dividend yield is important too.
- Workers: Wages seem higher at UWA but what about other conditions of employment? Job security? Will they be offered appraisal etc?
- Customers: Are low prices their only priority? Safety and services? Route network? Will UWA raise prices if they eliminate one of their competitors?
- Suppliers: Repayment period is important but size and regularity of orders is important too.
- Other stakeholders? Community, government, local residents around airports etc.
- Judgement could be based around the degree of usefulness of the data provided, the significance of factors not shown in the data, the culture and trading practices of UWA (not much evidence provided).

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4 Using the data in Appendix C and any other relevant information, recommend which city LoCost Airways should locate their next base in. Justify your answer.

[16]

	Knowledge	Application	Analysis	Evaluation
Level Two	Good awareness shown of locational factors [3-2 marks]	Good application of points made [3-2 marks]	Good use of theory to support answer [5-3 marks]	Good judgement shown in text and conclusion [5-3 marks]
Level One	One or more relevant points identified [1 mark]	Limited attempt to apply to case [1 mark]	Some use of theory to support answer [2-1 marks]	Some judgement shown in text and/or conclusion [2-1 marks]

Answers could include:

- X is more expensive although outright cost does not seem to be that important in this case.
- Contribution per passenger in X could be higher due to less competition.
- Break-even customers = 200000 per year at X and 166666 per year at Y – less risk at Y of not breaking even.
- Payback period = 2.5 years at X and 2.8 years at Y – supports the less risk argument but difference is very slight and figures are forecasts.
- Profitability potentially higher at X too – ARR = 20% at X and 15.7 at Y – is this enough to swing the argument?
- Much lower unemployment in X – more difficult to recruit suitably trained airline staff BUT may indicate higher disposable incomes in this region (possibly leading to higher contribution per passenger?)
- Lower number of airlines operating from X – less competition? But smaller potential market?

5 Gavin suggested taking the airline “up market” to a different market segment. To what extent do you agree with him that “the most important change we need to make to our marketing strategy to guarantee success is more promotion”?

[14]

	Knowledge	Application	Analysis	Evaluation
Level Two	Good knowledge of factors that could influence success [3-2 marks]	Points made well applied to case [3-2 marks]	Good use of theory/ B St reasoning to explain answer [4-3 marks]	Good judgement shown in text and conclusion [4-3 marks]
Level One	One or two relevant points made	Attempts made to apply to case [1 mark]	Some use of theory to explain answer [2-1 marks]	Some judgement shown in text and/or conclusion [2-1 marks]

Answers could include:

- Definition of marketing strategy: Long term plan designed to meet marketing objectives containing marketing budget and marketing mix.
- Promotion is only a part of a successful marketing strategy. New objectives needed. Revised (greater) marketing budget needed.
- There must be an integrated mix to convince customers that the “quality airline” service really is better. New name? Higher prices – but will customers be convinced enough to pay these? Better services – how will these compare with older established “quality airlines”?
- Needs the cooperation of the staff and they need to be communicated with and, possibly, retrained.
- More promotion is most unlikely to be sufficient to “guarantee success” – indeed, nothing could “guarantee success”.

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6 and 7 Use the following grid:

	Knowledge	Application	Analysis	Evaluation
Level Three				Good judgement shown in text and conclusions [8-5 marks]
Level Two	Good awareness shown of relevant subject content [4-3 marks]	Issues raised well applied to case [4-3 marks]	Good use of theory to explain answer [4-3 marks]	Good judgement shown in either or conclusions [4-3 marks]
Level One	Some awareness shown of relevant subject content [2-1 marks]	Some application of issues to case [2-1 marks]	Some use of theory to explain answer [2-1 marks]	Limited judgement shown [2-1 marks]

6 The rapid expansion of businesses such as LoCost Airways often leads to problems with the management of people within the organisation. Evaluate how businesses could attempt to reduce these problems.

[20]

Answers could include:

- Problems: Taller organisational structure, less involvement in decision-making and less delegation; pilots and other staff treated differently (labour turnover of latter rising); labour shortages likely if expansion continues.
- Solutions: Different organisational structure e.g. matrix; use profit centres as “teams” that allow delegation and decentralised decision-making; appraisal system for all staff (plus revised pay system?); more effective workforce planning (should business do own training of pilots etc.?). Use of theory could include selected motivational theorists, organisational structure, delegation benefits etc.

7 Discuss the advantages and disadvantages to companies, such as UWA, of a strategy of continuous growth through integration with other businesses.

[20]

Answers could include:

- Growth can increase market share and power. It can make a firm less vulnerable to takeover.
- Integration (explain different types) can eliminate competition, secure supplies or market outlets or achieve diversification.
- Economies of scale are possible. Market power can allow higher prices and profit margins.
- BUT: Diseconomies of scale are possible. Lack of synergy from integration e.g. culture clashes or different management styles. Takeovers can be costly and not achieve the expected benefits. May lead to investigation by regulatory authorities.