

BUSINESS STUDIES

Paper 9707/11
Short Answer/Essay

There was evidence of careful preparation for this exam by many candidates. More answers now attempt analysis and evaluation to support relevant descriptive business studies information.

However, there are some candidates that write too much in the short answers in **Section A** of the paper and as a result leave insufficient time for the careful selection, planning, and writing of the essay answer in **Section B** of the paper.

Candidates need to ensure that they choose the essay question carefully and focus on relevant concepts and material. Time should be spent interpreting and planning the answer rather than simply writing down 'all you know about a topic'.

Wherever possible, candidates should seek to make the context of an answer explicit and to clarify the practical application of a business studies concept or theory.

SECTION A

Question 1

- (a) The majority of candidates answered this correctly. However, there was a significant minority of answers which confused the term chain of command with span of control. Some candidates were able to secure one mark with a limited reference to organisational hierarchy.
- (b) An explanation of the advantages of a matrix organisational structure proved rather more difficult than that in part (a). Some candidates concentrated on 'organisational structure' and ignored the word 'matrix' in the question. Good answers recognised the cross-departmental and project-based nature evident in a matrix structure. Some candidates accurately described a matrix structure but did not then develop their answer to include appropriate advantages such as the sharing of ideas and the potential removal of inter-departmental rivalry.

Question 2

- (a) The majority of candidates were able to correctly define price elasticity of demand. Many candidates included a correct formula for price elasticity although some candidates reversed the formula and their definition and indicated that price elasticity measured the responsiveness of price to changes in demand. Some candidates described a basic supply and demand relationship and did not make reference to 'responsiveness' at all.
- (b) This proved more difficult with many candidates interpreting the question to require an explanation of perfectly inelastic demand whereas the question required an explanation of 'relatively' price inelastic demand. Good answers to this question explained that the increase in price would result in a proportionately smaller decrease in the quantity demanded and that as a result of that revenue would increase.

Question 3

This question was not generally well answered with a number of misconceptions surrounding the topic of diseconomies of scale. Some candidates remain convinced that diseconomies of scale are due to a business being unable to grow and thus enjoy economies of scale. This was a common misconception. Others gave reasons such as lack of demand for products, increase in government taxation, bad marketing tactics, and other general factors which would certainly be disadvantageous but are unrelated to scale.

Good answers to this question correctly identified and explained how diseconomies of scale such as communication problems, co-ordination problems and control problems might impact on a business and increase unit costs. Candidates should be encouraged to develop points made to explain just what impact they might have on a business. For example, many candidates identified that a business might experience co-ordination problems but a much smaller number of candidates explained that this could result in departments working towards different goals and this might also result in duplication of effort. Very few candidates were able to place their answers in a manufacturing context.

Question 4

- (a) Most candidates showed that they understood both the median and the mode and were able to give precise definitions of each.
- (b) The majority of candidates were able to explain that the mode would allow a shoe manufacturer to know which size of shoe was most demanded and they would therefore be able to produce more of that size than any other. Some candidates pointed out that the manufacturer could also identify the shoe size with the smallest demand and could thus transfer resources from the least popular size to production of the most common shoe size therefore affording a more efficient allocation of resources. However, many candidates did not make any reference to the limitations of the median and therefore prevented the Examiner from awarding maximum marks for this part of this question.

SECTION B

Question 5

- (a) The majority of candidates were able to demonstrate accurate knowledge of the content of a profit and loss account and a balance sheet and often gave considerable details of the contents of each. Good answers developed the material by mentioning the importance of working capital, gearing, and other ratios or by showing how these statements can be used to make comparisons with other periods and other businesses.
- (b) Most candidates were able to identify some of the uses of a profit and loss account and a balance sheet to both managers and shareholders. However, a number of candidates included the usefulness to other stakeholders and thus diluted the relevant material.

Good answers concentrated on what information managers and shareholders would want to use from the accounts and often this type of discussion brought out the different aims of these two groups.

Strong answers often included some discussion of the limitations of using these financial documents with the most common criticism being that they could include window-dressed.

Question 6

This question produced a considerable number of disappointing essays. The importance of good management for success in business, as a topic for discussion, should have provided many candidates with a real opportunity to analyse and evaluate the role of managers and management in business organisations. While some candidates were able to show an awareness and understanding of management theory and apply relevant concepts, the majority of candidates choosing this question either based their answers on 'leadership' rather than 'management' and focused on leadership styles and motivation, or engaged in some very generalised discussion of manager actions.

Some candidates took a departmental approach to this question which often worked well. Such answers outlined how management in each department could contribute to the success of a business and often also drew out the vital inter-relationship between the activities of each department.

Candidates should be encouraged to choose essay questions carefully and to ensure that they can discuss the relevant theory. In this question the theories of Drucker and Mintzberg on the roles and functions of managers would have been particularly relevant.

Question 7

- (a) This was a popular question. Candidates had clearly revised the marketing mix and were able to describe them accurately often using relevant examples. Weaker candidates however, simply described the '4 Ps' and made little attempt to relate them to the objectives of a business. Strong answers identified some possible objectives of a business and then explained how each part of the marketing mix could help them achieve those objectives. For example, if a business was aiming for an increase in market share, it might be achieved by reducing the price of a product in order to attract larger numbers of customers. Also, in order to achieve this it might be necessary to advertise widely and to make sure that the products are widely available in suitable outlets.

Many candidates just asserted that the marketing mix was essential in order to achieve objectives without being specific about which objectives or how or why they were essential.

- (b) Candidates were often less confident with this part of the essay, perhaps due to the question requiring an explanation of the 'factors' that could influence promotion rather than just a straightforward explanation of promotion itself. Good answers recognised that the car manufacturer would need to know what budget was available for promotion or that they should be aware of the promotion activities of their rivals. Other common factors were the nature of the target market. However, it was only in the stronger answers that these factors were fully explained and their potential impact on promotional activities was recognised. Weaker answers sometimes focused on the importance of pricing the car correctly or on the importance of it being eco-friendly but did not discuss how this might be incorporated into the promotion of the car.

Some candidates also ignored the fact that the question related to the launch of a new model and included an explanation of varying levels of promotion in different stages of the product life cycle.



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Paper 9707/12
Short Answer/Essay

In general most candidates seemed to have been well prepared for this exam.

However, some candidates still write a disproportionate amount of material in answers to some of the short questions in **Section A** of the paper and consequently spend an insufficient amount of time in selecting, planning, and writing the essay question in **Section B** of the paper.

There continues to be an increasing willingness to stand back at the end of an essay and to attempt some concluding evaluative comment.

However, many candidates significantly limit the potential marks that can be awarded by failing to respond to the explicit contexts given in specific questions. This was particularly evident in **Questions 5(b)** and **7(b)**.

SECTION A

Question 1

- (a) The majority of candidates found this question very accessible and were able to identify and state two relevant advantages of operating as a sole trader.

Typical suggestions included the ability to have full control of the business, retain any profits secured, and have flexibility of working hours.

- (b) Given the wording in this question it was disappointing that some candidates still spent time writing about profit maximisation. Other answers only listed objectives and failed to briefly explain them. Stronger answers explained the relevance of an objective such as survival for any business and linked the achievement of this objective with longer term objectives for a small business such as reputation, competitiveness, and growth.

Question 2

- (a) Some candidates had difficulty in providing a simple definition of market segmentation – dividing a market into sections/sub groups with similar characteristics - was all that was required for the two marks.

- (b) Unfortunately, some candidates misunderstood this question and wandered into a non relevant explanation of niche and mass marketing rather than briefly explaining how, for example, a market might be split geographically to allow for different climatic situations or be split to take account of different age, gender, or income situations.

Question 3

Strong answers to this question recognised that lean production is a generic process that seeks to secure efficiency in the use of business resources and such answers referred to a number of component contributions rather than to any one feature. Typical relevant proposals included JIT, TQM, Quality Circles and simultaneous engineering. Some weaker candidates, however, confused the concept with production issues including batch and job production.

Question 4

- (a) Sound responses to this question recognised that a cash flow forecast is an estimate/prediction of the future business cash inflows and outflows. A small number of answers wrongly confused cash with profit.
- (b) Some weak answers gave a method to improve cash flow but failed to explain how the method would be accomplished. If for example the method of 'recover debts' was given as a means of improving cash flow, some explanation of how this might be achieved such as offering discounts for early payments or threatening legal action should have been explained.

SECTION B

Question 5

- (a) This was a very popular question but one where many candidates did not address 'why' a Human Resource Manager should have a good knowledge of motivation theory. Strong answers recognised that the work of a HRM dealt with issues and problems such as high labour turnover, absenteeism, and low productivity, thus providing strong contextual reasoning, and displaying knowledge and understanding of motivation theory. Too many answers simply discussed 'how' an HR manager might use motivation theory or simply discussed at length various motivation theories.
- (b) Most candidates were able to suggest ways in which poor levels of motivation might be improved often with sound theoretical examples. However, few candidates were able to relate suggestions to the business context of a supermarket, choosing either to ignore the context or to simply describe an industrial production context. Simple references to shelf-stacking, check-out activities, or store health and safety issues could have effectively contextualised answers.

Question 6

This also proved a very accessible question. However, many candidates provided a rather simplistic answer in that the Internet was discussed from the personal perspective of a user, or a consumer, or as merely a source of information rather than as a business resource. More effective answers concentrated on the business impact of the Internet such as increasing market opportunities or alternatively inviting more competition in the global market place. Strong answers often used the own country context to identify some specific potential opportunities or threats or to point out the current limitations of Internet business.

Question 7

- (a) Although 'visual presentation' is clearly described in the syllabus, few candidates identified business information methods such as bar charts and pie diagrams as appropriate material to answer this question. Some answers unfortunately drifted into non relevant explanations of advertising or the structure of presentations.
- (b) Most answers discussed relevant information gathering activities associated with primary and secondary market research. However, the context of a soft drinks manufacturer was often missing from otherwise sound responses. An example such as a taste panel would have been a very appropriate context example to give for this question.

BUSINESS STUDIES

Paper 9707/21
Data Response

General comments

Candidates performed a little less well than in previous sessions. Although subject knowledge was generally sound, and candidates seemed to understand the case material, the effective use of time was less well handled – there was some evidence of **Question 2** being rushed towards the end than is usually the case. In addition, key pieces of data in **Question 1** were overlooked by many candidates in the JIT question. However, many candidates were able to complete the paper satisfactorily so that time was not considered a significant issue.

As is usually the case, there was very little evidence of evaluation skills being used, although examiners were pleased that candidates were, often, prepared to make judgements through decisions on **Question 1(d)**, the location question. It is, however, crucially important that such judgements are supported by the evidence/analysis.

The case material seemed generally well accessible to the candidates and there was no evidence of questions being misunderstood. The quality of answers generally showed good use of business language and overall communication skills.

Comments on specific questions

Question 1

- (a) (i) Most candidates had some understanding of the term 'niche market'. In some instances the term was confused with market segmentation. Other candidates focused more on exclusivity rather than the fact that the market was unexploited. The best answers gave examples of niche markets.
- (ii) Most candidates were able to describe the concept of 'quality'. Stronger answers focused on the perspective of the consumer while weaker answers focused on the product, through quality control.
- (b) (i) Most candidates correctly calculated 0.5 for the current ratio. The few incorrect answers came from inverting the formula or extracting incorrect data. Very few candidates were unable to attempt the calculation.
- (ii) Most candidates were able to identify that the current ratio had changed significantly. Better candidates were able to say that a liquidity problem has developed or that there were working capital issues.
- (iii) There were a number of possible answers arising from the data. The most likely explanations were poor management of cash and stocks which may have been related. Some candidates found it easier to answer (iii) before (ii), or both parts together. In such instances marks were rewarded appropriately. Weak answers simply repeated comments made in (i).
- (c) This question was answered very well by some candidates, but other answers were disappointing. Virtually all candidates understood the concept of JIT, and were able to discuss the strengths and weaknesses and/or usefulness of the technique in general terms. Fewer candidates answered the question in the context of Mediquip. Examiners were looking for the application of the technique to Mediquip. The best answers made significant use of the Stock Control information presented in the table. Good answers referred to the unreliability of suppliers for components C & D and how this might rule out JIT for those components. Better answers also referred to the likely demand and its impact on the suitability of JIT. The best answers related the concept of JIT to the present position for each of the components.

Teaching Tip:

Candidates generally understand techniques such as JIT. They find it more difficult to apply the ideas in particular circumstances. Candidates should develop their application skills through exposure to a range of different business situations. Context is all important in such answers.

- (d) This question was generally answered well. Virtually all candidates made some use of the data on location provided in the case material. Weaker answers tended to only focus on the information in the table, with little development of the ideas it contains. These weaker answers were descriptive rather than analytical and struggled to find a criterion by which to judge the various statements made about location. Many answers started with the decision and then attempted to justify by means of analysis. This approach is not recommended as it can lead to biased analysis. It is far better to look at arguments for and against before making a decision. Stronger answers attempted to make judgements about the statements using the current situation of the business and its needs. Some candidates used the liquidity problem to argue that the financial issues were the most important. These candidates recommended the low cost, low rent site with government grants because it helped resolve the critical liquidity problem. Other good candidates focused on the production side having observed that products needed to be manufactured in a clean, modern environment (important for health related products), quite the reverse of the present site. Weaker candidates seemed to 'clutch at straws' for criteria, using distance from the present factory as a criterion – it would be useful for such candidates to think through, carefully whether such a criterion would carry much weight in the globalised business world - or number of points 'for' versus number of points 'against'.

Question 2

- (a) (i) Although there were some good definitions of export market, many explanations were circular and achieved little by way of marks, for example 'export markets are markets for people exporting'. Better answers distinguished such markets by their exposure to uncertainties through exchange rates and government policies.
- (ii) 'Profit' is an idea so central to the subject that it surprised the examiners how many candidates struggled with explaining 'net profit'. Some candidates confused the term with 'net profit margin'. The best answers related the concept to the profit and loss account (income statement), observing that net profit was gross profit less expenses. The best answers observed that there is more than one type of net profit and that it can be used to measure and monitor performance.
- (b) (i) Most candidates attempted to calculate the accounting rate of return. A pleasing number of candidates obtained the correct answer of 25%. A significant number of candidates used gross income (i.e. \$40k) rather than net income (\$30k) for calculating the net cash flow arising from the project. Candidates who were unable to perform the calculation correctly did, usually, get a mark by virtue of showing the formula or their working.
- (ii) Most candidates were able to say that it would help Joe in his decision making. The better answers also said that the calculation showed a healthy return.
- (iii) This question proved a challenge for many candidates. Some candidates seemed confused by the role of exchange rates in Joe's situation. Others were confused about the impact of strong exchange rates on Joe's business, often arguing, incorrectly, that if Joe's local currency was strong then his business would benefit. The strongest answers not only recognised that a strong currency would be bad for Joe's cereals business (and vice versa), but that so too would be fluctuating currencies and that these both add weight to the argument for going for the certainty of the Wind4U contract.

Teaching Tip:

There is a danger that topics such as exchange rates are taught from an economics perspective. It is important in Business Studies to focus on the practical impact of such issues on businesses and customers.

- (c) Examiners were disappointed with the large number of very general answers to this question. While many candidates described the benefits of primary and secondary research, few candidates linked these to the likely scarce financial resources for Joe nor to the likely lack of information/knowledge since this was to be the first wind farm in the country.
- (d) Examiners were very pleased that far fewer candidates confused the term 'stakeholder' with 'shareholder'. However, the answers to this question were generally disappointing. While many candidates were able to identify the various stakeholders involved in the situation, most of the answers were fairly general and could have applied to many businesses facing an investment decision. Those answers that did see the relevant context usually were usually unable to comment on the significance of the stakeholders' reaction. The best answers not only related well to the case but were also able to make judgements about the relative importance of the reactions. So, for example, for Joe's family and employees the decision to reduce the scale of the farm operations was going to be the biggest decision they had probably faced whereas for Joe's export customers there were probably going to be plenty of other sources for cereals on world markets.

Teaching Tip

It is important for 10 mark questions for candidates to identify ways in which evaluation skills could be demonstrated. It is useful to spend time developing this skill using past questions. Once opportunities have been identified it is then easier to demonstrate the skill.



BUSINESS STUDIES

Paper 9707/22
Data Response

General comments

Candidates performed a little less well than in previous sessions. Although subject knowledge was generally sound, and candidates seemed to understand the case material, the effective use of time was less well handled – there was more evidence of **Question 2** being rushed towards the end than is usually the case. In addition, key pieces of data in **Question 1** were overlooked by many candidates in the quality control question. However, many candidates were able to complete the paper satisfactorily in time so the time issue was not considered to be a problem with the paper.

As is usually the case, there was very little evidence of evaluation skills being used, although examiners were very pleased that candidates were, often, prepared to make judgements through decisions on question **1(d)**, the location question. It is, however, crucially important that such judgements are supported by the evidence/analysis.

The case material seemed generally well accessible to the candidates and there was no evidence of questions being misunderstood. The quality of answers generally showed good use of business language and overall communication skills.

Comments on specific questions

Question 1

- (a) (i) Most candidates had some understanding of the term 'market segmentation'. Weaker candidates gave a definition but did not explain how the concept was useful for focusing marketing efforts. The best answers gave examples.
- (ii) Most candidates were able to describe the concept of 'JIT'. Stronger answers gave examples of where it might be appropriate and conditions that might apply. Weaker answers made imprecise comments such as 'made on time' or 'delivered on time' – these are not specific only to JIT, most businesses want to achieve these.
- (b) (i) Most candidates correctly calculated 0.125 for the acid test ratio. The few incorrect answers came from inverting the formula. Very few candidates were unable to attempt the calculation. A method mark was awarded where appropriate when mistakes were made.
- (ii) Most candidates were able to identify the fact that the ratio had changed significantly downwards. Better candidates were able to say that a liquidity problem has developed or used phrases such as 'working capital problems'.
- (iii) There were a number of possible answers arising from the data. The most likely explanations were poor management of cash and stocks, which may have been related. Some candidates found it easier to answer (iii) before (ii), or both parts together. In such instances marks were awarded appropriately.
- (c) This question was answered very well by some candidates, but many answers were disappointing. Virtually all candidates understood the concept of quality control, and were able to discuss the importance and/or usefulness of the technique in general terms. Fewer candidates answered the question in the context of Phonequip. Examiners were looking for the application of the technique to this business. The best answers made significant use of the Quality Control information presented in the table, indeed this was a requirement of the question. Good answers used the



data in the table effectively (and the importance of high quality in high-tech industries). For example, it would appear that quality control is not working for components B and C with so few rejects at the factory and so many rejects by customers. In contrast it does appear to be working for component A. The best answers related the concept of quality control to the present quality position for each of the components and then drew an overall conclusion as to the usefulness of improved quality control for each component.

Teaching Tip:

Candidates generally understand ideas such as quality control. They find it more difficult to apply the ideas in particular circumstances. Candidates should develop their application skills through exposure to a range of different business situations through the use of case studies.

- (d) This question was generally answered well. Virtually all candidates made some use of the data on location provided in the case material and understood location issues. Weaker answers tended to only focus on the information in the table, with little development of the ideas it contains. These weaker and descriptive answers struggled to find a criterion by which to judge the various statements made about location. Many answers started with the decision and then attempted to justify by means of analysis. This approach is not recommended as it can lead to biased analysis. It is far better to look at arguments for and against before making a decision. Stronger answers attempted to make judgements about the statements using the current situation of the business and its needs. Some candidates used the liquidity problem to argue that the financial issues were the most important. These candidates recommended the low cost, low rent site with government grants because it helped resolve the critical liquidity problem. Other good candidates focused on the production side having observed that products needed to be manufactured in a clean, modern environment (important for electronic products), quite the reverse of the present site. Weaker candidates seemed to 'clutch at straws' for criteria, using distance from the present factory as an over-riding criterion – it would be useful for such candidates to think through, carefully whether such a criterion would carry much weight in the globalised business world. Other weaker answers tended to count the number of arguments 'for' and 'against', giving each equal weight.

Question 2

- (a) (i) Many candidates had difficulties explaining 'market price'. Good answers referred to the inter-relationship between supply and demand.
- (ii) 'Profit' is an idea so central to the subject that it surprised the examiners how many candidates struggled with explaining 'retained profit'. The best answers related the concept to the profit and loss account (income statement), observing that retained profit was a source of internal finance for the business. Answers also linked the concept to the Balance Sheet through Reserves. Weak answers only showed vague understanding, using terms like 'liabilities' and 'capital' as deductions from sales revenue.
- (b) (i) Most candidates attempted to calculate the payback. A pleasing number of candidates obtained the correct answer of 1 year 8 months. A significant number of candidates used gross income (i.e. \$4k) rather than net income (\$3k) for calculating the net cash flow arising from the project. Candidates who were unable to perform the calculation correctly did, usually, get a mark by showing their working.
- (ii) Most candidates were able to say that the payback figure would help PF in the decision making. The better answers also said that the calculation would be useful when applying for bank loans – the shorter the payback the better as it reduces risk to the lender.
- (iii) Answers to this part of the question were generally disappointing. Concepts such as interest rate can have both direct effects (on the business) and indirect effects (on customers). Few candidates recognised the possibility of indirect effects. The best answers recognised that higher interest rates may discourage tourists who may have less money to spend or face discouraging exchange rates. The answers also recognised that higher interest rates have an impact on the cost of finance, needed for the project, whatever the chosen source of finance. These answers then went on to argue that with likely higher costs and lower demand, the project would look less attractive. Weaker answers focused only on the cost of borrowing and did not then relate this back to the decision.

Teaching Tip:

There is a danger that topics such as interest rates are taught from the 'direct effect' perspective. It is important in Business Studies to focus on the practical impact of such issues on businesses and customers.

- (c) Examiners were disappointed with the large number of very general answers to this question. Most candidates were able to examine sources of finance, but many candidates did so in a way that could apply to almost any business. Examiners were looking for sources suitable to PF. This means that certain features needed to be considered – it is a small business; it has little by way of profits; there was unlikely to be assets suitable for sale (the boat is a critical part of the proposal); the owners had little income, so, probably, limited capital; debt factoring was unlikely to be relevant.
- (d) Examiners were generally pleased with the understanding that most candidates have about the role of the government in the business world. However, while many candidates were able to identify the various roles governments have, fewer candidates were able to relate these to PF. Many candidates provided answers that could have related to many businesses facing an investment decision. Those answers that did see the relevant context were usually unable to comment on the significance of the government's impact. Some answers focused on the country, rather than PF, while others limited the answer to what the government does, and ignored the impact. The best answers not only related well to the case but were also able to make judgements about the relative importance of the impacts. So, for example, safety, which is mentioned in the text, would become much more important as PF now had to consider not only Pedro but also the fee paying passengers who would be covered by legislation and regulation. Exchange rates, too, and hence macro-economic policy would be very important as most of the customers would be foreign tourists.

Teaching Tip:

It is important for 10 mark questions for candidates to identify ways in which evaluation skills could be demonstrated. It is useful to spend time developing this skill using past questions. Once opportunities have been identified it is then easier to demonstrate the skill. In this case, evaluation comes through developing the concept of relative importance.



BUSINESS STUDIES

Paper 9707/31
Case Study

General comments

This was the first examination session in which two separate case study papers were sat by candidates in different time zones around the world. This unique security system requires that papers of approximately similar degrees of accessibility and difficulty are written and presented to candidates in the same session. This was certainly true of 9707/31 and 9707/32 in this session when, although the case study scenarios were very different and most of the questions too, the average marks and the spread of marks were very similar between the two papers and the grade boundaries also.

Paper 31 was based on The Sauce Company. The case study was no longer than the average of recent years and the complexity of language used was also similar. Despite these similarities with previous papers the key skill that was absent from the answers of many candidates was that of 'application'. After several years of some improvements in the ability of candidates to use case study material to support or illustrate their answers, many of the responses to The Sauce Company questions contained no relevant contextual details at all. This was rather disappointing and the results of some candidates may be lower than anticipated because, although they were able to demonstrate good subject knowledge and analysis, they did not root their answers in the context of the business in the case study. Marks for the skill of evaluation can only be awarded once the candidate has applied their answer to the case as judgement or evaluation without a business context is of very limited value indeed. Many of the comments on individual questions below give clear indications of how candidates' answers could have been more effectively applied.

The other main issue with this paper concerns the large number of candidates who seemed to be unaware of the Total Quality Management concept. This resulted in many low marks – or even zero marks – for **Question 2**.

On a brighter note it is certainly true to say that CIE Centres are becoming much more skilled in preparing relatively weak candidates for this A level examination. In previous years there have always been a considerable number of very low total marks awarded. This was certainly not the case this year and CIE Centres are generally, excluding the reservations noted above, preparing candidates with good subject knowledge and examination techniques. Weaker candidates were usually able to show knowledge in answering some of the questions set, for example, the two questions that required calculations. There were relatively few cases of really poor time management and average candidates were able to complete their answers in the time available.

The important skill of evaluation is still a problem for many candidates although some Centres are clearly preparing their own cohort very effectively for decision making type questions such as **Question 5** and **Question 6**. This style of question asks candidates to make a recommendation and when this is well supported by the application and analysis of the evidence selected, then marks for evaluation will always be awarded. As was noted above, and will be further explained in comments to individual questions, evaluation or judgement in an answer is never awarded credit by examiners unless it is clearly contextualised.

Comments on specific questions

Section A

Question 1

- (a) This question led to some very accurate and detailed answers on the claimed benefits of limited company status. Application, when this skill was demonstrated, was often in the form of referring to the private limited company status of The Sauce Company and the need for Ibrahim to raise additional capital (perhaps from shareholders) to finance his expansion plans.

Examiners' Tip: Encourage candidates to include at least one sentence in their answers to case study questions that starts with: "This factor is particularly important to this business because" When encouraged to do this, candidates are often then forced to make a statement that is rooted in the context of the business in the case and this will be rewarded with application marks.

- (b) This question 'worked' very well indeed. There were some really excellent answers using much of the data given in Table 1. This was usually well analysed – for example, explaining that the reduced need to provide induction training to candidate A would help to reduce costs. Some answers were excellent in terms of subject knowledge and analysis but failed entirely to apply the points being made to The Sauce Company. One way in which this might have been done was to link the current problems of low quality production in The Sauce Company factory with the information provided about the two candidates. Some candidates suggested that perhaps the greater industrial experience of candidate B and his 'ability to get the best out of worker' might mean that he would be well equipped to tackle and solve the quality problems.

Question 2

It was quite rare for candidates to gain around half marks on this question. The marks were quite polarised at both extremes. There were those who understood TQM and were able to analyse, apply and show judgement about the usefulness of this technique and those who had no or little idea about the concept. The former group of candidates were often awarded high marks and the other group low or no marks. The emphasis on learning key definitions – even at A level where the skill of evaluation is so important – must never be forgotten as an accurate and precise definition of TQM would have allowed even weaker candidates to start to gain marks on this question. Application to the case could have been shown by discussing the chances of TQM being introduced successfully within The Sauce Company given the low levels of staff motivation in the batch production section.

Question 3

- (a) This straightforward accounting question resulted in most candidates gaining at least half marks but there were relatively few completely correct revised Profit and Loss accounts. The major errors were in working out the new overheads figure and in recalculating the tax at 20% of the new net profit figure.
- (b) Most candidates could define, explain or give a formula for break even and gain knowledge marks – although quite a few answers suggested that break even shows *when* – in time – a firm's revenue covers costs. The textbooks advantages and disadvantages of break even were often well analysed but application to Ibrahim's business was rare. Application, in response to this question, could have been shown by suggesting that forecasting revenues and costs from any new project, especially one involving an export market that might be affected by exchange rate fluctuations, were likely to be open to considerable inaccuracy making break even analysis less reliable.

Examiners Tip: Encourage candidates to discuss and weigh up the advantages and disadvantages of Business Studies techniques in the context of actual business situations not just in an abstract textbook way.

Question 4

- (a) These two ratios were accurately calculated by the majority of candidates – either the acid test or the current ratios were acceptable as the liquidity ratio. Incorrect answers that did not demonstrate any ratios or calculations gained no marks at all – even if the candidate had attempted to use the correct ratio on their calculator, but made an error.
- (b) Most candidates gained knowledge marks either for suggesting relevant sources of finance or understanding the ratio results. There were some very good answers to this question that used case study material – such as the ratio results or the relatively high stock value of the business – to evaluate the most suitable finance sources. Answers that attempted to list a large number of sources but applied none of them were awarded low marks.

Question 5

Given that many similar questions have been set on case study examinations before, the average response to this task was quite disappointing, despite the huge scope it offered. The best answers identified key features of the food market in the candidate's own country and used this to make clear recommendations to Ibrahim on how he could effectively market his sauces there. Some of these answers suggested a clear objective – such as a high market share in a high added value niche market segment. This gave the rest of the answer a clear strategic focus. Less effective answers explained just the 4P decisions that Ibrahim might take, but again with some application to the product and the country of the candidate. However, the majority of answers failed to give a strategic overview to marketing decisions and failed to apply their responses either to the product or their own country.

Examiners Tip: Encourage candidates to discuss marketing plans and strategies for different products within their own countries, using particular features of the population, culture or economy to influence the judgements made.

Question 6

This was an accessible essay question and led to many detailed answers about the factors that can influence business success in general and some of these were applied to Ibrahim's company. There is often a tendency for candidates to identify and explain too many factors in response to a question such as this. One very good answer identified and explained just four issues – the patent, Ibrahim's energy and enthusiasm, wide product range and the original recipe. The candidate discussed each of these in turn and examined their importance to the success of The Sauce Company, prioritising and comparing all of them. There was a well judged conclusion which suggested that overall success was the result of a combination of factors but that, perhaps the most important one, was the patent that allowed Ibrahim to focus on his differentiated product and possibly charge premium prices for it. Other final conclusions were equally valid. Some candidates read the question as being in the future tense and wrote about factors that will determine success and some marks were awarded to this approach.

Examiners Tip: Encourage candidates to debate and prioritise when it suggests that certain factors might 'have led to success' - perhaps no single factor has been the only cause.

Question 7

The essays were equally popular with candidates and this question resulted in some excellent answers. The stakeholder/shareholder debate is now a very well established one at A level. Many candidates were able to analyse the impact of considering one group of stakeholders over another and many discussed the scope for conflicts and conflict resolution. Unfortunately, some candidates had been so well prepared for this type of question that they overlooked the essential requirement to apply their answers. In this case, application could have been shown by, for example, considering the needs of the batch production workers and whether they were being met, or Ibrahim's attitude to customers and the fact that he 'thought customers would not notice' moving away from the claim to produce home made sauces.

Examiners' Tip: Candidates should be encouraged to gain practice at reading case study questions and essay questions and then discussing what the key elements of the each question are in the context of the business. It is very important that all key terms and phrases in each question are understood and their importance appreciated before starting to answer.

Final comments.

All examiners – including this Principal Examiner – reported reading a large number of well constructed and well written scripts. The quality of language was often very good and the ability of some candidates to cope with the challenges presented by such a wide ranging examination paper with good time management skills always impresses examiners. On the other hand, it is always frustrating to read a script from a candidate who clearly has considerable knowledge of the subject and can analyse in detail but who has failed to appreciate the importance of both application and evaluation skills. Once again, it is strongly advised that all candidates are shown both past mark schemes and previous Principal Examiner's reports. Candidates could then be shown how to mark their own mock examination answers, or those of their peers, and this is a very good example of formative learning.

Finally, the Principal Examiner would like to thank all teachers in all Centres for preparing candidates for this paper. CIE hopes that this report will assist teachers in their efforts to ensure that future candidates gain the highest marks possible.

BUSINESS STUDIES

Paper 9707/32
Case Study

General comments

This was the first examination session in which two separate case study papers were sat by candidates in different time zones around the world. This unique security system requires that papers of approximately similar degrees of accessibility and difficulty are written and presented to candidates in the same session. This was certainly true of 9707/31 and 9707/32 in this session when, although the case study scenarios were very different and most of the questions too, the average marks and the spread of marks were very similar between the two papers and the grade boundaries also.

Paper 32 was based on the Chan Beauty Company. The case study was no longer than the average of recent years and the complexity of language used was also similar. Despite these similarities with previous papers the key skill that was absent from the answers of many candidates was that of 'application'. After several years of some improvements in the ability of candidates to use case study material to support or illustrate their answers, many of the responses to the Chan Beauty Company questions contained no relevant contextual details at all. This was rather disappointing and the results of some candidates may be lower than anticipated because, although they were able to demonstrate good subject knowledge and analysis, they did not root their answers in the context of the business in the case study. Marks for the skill of evaluation can only be awarded once the candidate has applied their answer to the case, as judgement or evaluation, without a business context is of very limited value indeed. Many of the comments on individual questions below give clear indications of how candidates' answers could have been more effectively applied.

On a brighter note it is certainly true to say that CIE Centres are becoming much more skilled in preparing relatively weak candidates for this A level examination. In previous years there have always been a considerable number of very low total marks awarded. This was certainly not the case this year and CIE Centres are generally, excluding the reservations noted above, preparing candidates with good subject knowledge and examination techniques. Weaker candidates were usually able to show knowledge in answering some of the questions set, for example, the two questions that required calculations. There were relatively few cases of really poor time management and average candidates were able to complete their answers in the time available.

The important skill of evaluation is still a problem for many candidates although some Centres are clearly preparing their own cohort very effectively for decision making type questions such as **Question 3** and **Question 5**. This style of question asks candidates to make a recommendation and when this is well supported by the application and analysis of the evidence selected, then marks for evaluation will always be awarded. As was noted above, and will be further explained in comments to individual questions, evaluation or judgement in an answer is never awarded credit by examiners unless it is clearly contextualised.

Comments on specific questions

Section A

Question 1

- (a) This question led to some accurate observations about the problems with communication within this business but there was often little recognition of the key communication principles of barriers to communication, lack of feedback and inappropriate media. The identification of the problems causing poor communication in this case often led to knowledge and application marks being awarded but analysis marks were less frequently awarded due to the frequent absence of explanations involving the use of important business communication issues. Some candidates provided a detailed analysis of the consequences of poor communication for CBC such as, reduced productivity and lost sales, rather than the causes of the communication problems.

- (b) In one sense this question ‘worked’ well. There were many candidates who recognised ways of improving communication such as holding meetings, using two-way communication methods and quality circles. These were often explained quite effectively. The main problems were the lack of direct application to Chan’s business and the frequent absence of any attempt to evaluate these methods. One way in which both application and evaluation was demonstrated by some candidates was to question the likelihood of two-way methods of communication being acceptable to the senior supervisor that June had appointed. Perhaps the real solution lay in replacing this supervisor or providing them with training in more appropriate communication methods.

Examiners’ Tip: Encourage candidates to include at least one sentence in their answers to case study questions that starts with: ‘This factor is particularly important to this business because’ When encouraged to do this, candidates are often then forced to make a statement that is rooted in the context of the business in the case and this will be rewarded with application marks.

Question 2

Nearly all candidates were able to gain some marks on this question even though it was apparent that a fair proportion of them were unaware of the contribution costing principle and its appropriateness in this case. There were many correct or nearly correct solutions.

Question 3

This straightforward decision making question allowed candidates to bring forward the ‘solution’ that they had calculated in the previous question so the ‘own figure rule’ was applied. The question led to some very good answers that used both accounting data as well as the qualitative factors that were apparent in the case study. Many candidates argued that the shop should be kept open but that important decisions should be taken to increase the contribution (or profitability) of the shop. When these proposals were evaluated in terms of Chan’s business – for example, by suggesting that few improvements were likely until June herself became more involved with this shop – then high marks were awarded.

Question 4

- (a) There were many correct answers to both parts of this question. It is certainly the case that Centres have become much more effective in the teaching of investment appraisal in recent years. A fair proportion of candidates did not divide the total profit by the number of years when attempting to calculate the ARR and the initial capital cost was not subtracted by some candidates when calculating the NPV. Some scripts contained no attempt at all at this question suggesting that the candidates had not been introduced to these important methods of assessing investment projects.
- (b) The majority of candidates were awarded with a high proportion of the marks for knowledge and application for their answers to this question. There was widespread understanding of the significance of the investment appraisal results and an appreciation of how to compare them with the data provided in the case. Many qualitative issues were also discussed and the differing nature of risk and degrees of risk to June of these two options were frequently discussed. Many candidates accepted without question that, as stated by the Marketing Director, Option 2 would not require much market research. Some candidates rightly argued that such an approach might increase the level of risk. Other answers also questioned the validity of the ‘quick calculations’ conducted by the Marketing Director. These examples of a critical consideration of comment in the case study demonstrate good evaluative skills and were awarded accordingly. Candidates should always be willing to question the assumptions made by the key actors in the case material.

Examiners Tip: Encourage candidates to discuss and weigh up the advantages and disadvantages of business options in the context of actual business situations not just in an abstract textbook way.

Question 5

Given that many similar questions have been set on case study examinations before, the average response to this task was quite disappointing, despite the huge scope it offered. The best answers identified key features of the cosmetics market in the candidate’s own country and used this to make clear recommendations to June on how she could effectively market her cosmetics there. Some of these answers suggested a clear objective – such as a high level of sales in the relatively small high income market

segment that existed in some candidates' countries. This often helped to give the rest of the answer a clear strategic focus. Less effective answers just explained the 4P decisions that June might take, but again with some application to the product and the country of the candidate. However, the majority of answers failed to give a strategic overview to marketing decisions and failed to apply their responses either to the product or their own country.

Examiners Tip: Encourage candidates to discuss marketing plans and strategies for different products within their own countries, using particular features of the population, culture or economy to influence the judgements made.

Question 6

This was a popular essay and, at one level, it proved to be quite accessible. There was frequent discussion about the importance of management in general and the need for June in particular to be a more effective manager in times ahead. Many candidates did not go on to discuss how external factors could affect this business and even fewer were able to make a comparison between the relative importance of these factors for the future success of Chan's Beauty Company. The best answers discussed how June's future management decisions might have a direct impact on the business's future success. The significance of external factors was then assessed, for example, weighing up the importance of a fluctuating exchange rate on June's plans to expand in foreign markets or how changes in GDP growth might impact on the demand for the income elastic products that the business sells. A few candidates were able to make the link between the two parts of the question and suggest that the future performance of this business depended on how June managed the firm's response to changing external conditions.

Examiners Tip: Encourage candidates to debate and prioritise when it suggests that certain factors might 'have led to success' - perhaps no single factor has been the only cause.

Examiners' Tip: Candidates should be encouraged to gain practice at reading case study questions and essay questions and then discussing what the key elements of the each question are in the context of the business. It is very important that all key terms and phrases in each question are understood and their importance appreciated before starting to answer.

Question 7

It was disappointing to see so many candidates miss out on the invitation to focus their answers to this essay on 'this business'. Candidates should be frequently reminded that an essay that is long and detailed yet makes no direct reference to the business in the case (or any other business if that is the wording in the question) will probably not even be awarded 50% of the essay marks available. Application of the issues and concepts raised by the question is absolutely vital if a candidate is to perform to their highest potential. In this case, the skill of application in this question could have been demonstrated by discussing how June's approach to stakeholders might have to change if short term profits, driven by Jim's objectives, become the new focus of the business. The examples of poor staff motivation and communication and willingness to abandon workers and customers in Cityville could also have been examined to show that the candidate was using the context of the case to help answer the question set.

Final comments.

All examiners – including this Principal Examiner – reported reading a large number of well constructed and well written scripts. The quality of language was often very good and the ability of some candidates to cope with the challenges presented by such a wide ranging examination paper with good time management skills always impresses examiners. On the other hand, it is always frustrating to read a script from a candidate who clearly has considerable knowledge of the subject and can analyse in detail but who has failed to appreciate the importance of both application and evaluation skills. Once again, it is strongly advised that all candidates are shown both past mark schemes and previous Principal Examiner's reports. Candidates could then be shown how to mark their own mock examination answers, or those of their peers, and this is a very good example of formative learning.

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