

**MARK SCHEME for the May/June 2010 question paper
for the guidance of teachers**

9771 BUSINESS AND MANAGEMENT

9771/02

Paper 2 (Strategic Decisions), maximum raw mark 100

This mark scheme is published as an aid to teachers and candidates, 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, which would have considered the acceptability of alternative answers.

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

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

CIE is publishing the mark schemes for the May/June 2010 question papers for most IGCSE, Pre-U, GCE Advanced Level and Advanced Subsidiary Level syllabuses and some Ordinary Level syllabuses.

Page 2	Mark Scheme: Teachers' version	Syllabus	Paper
	Pre-U – May/June 2010	9771	02

Section 1

- 1 (a) Using the information in Table 1, calculate the advertising elasticity of demand from 2007 to 2008 for BT's Broadband Option 1. [3]

Table 1: Advertising spend on BT Broadband Option 1

Year	Advertising spend £m	Sales change (on previous year)
2006	£56m	+8%
2007	£64m	+12%
2008	£71m	+8%
2009	–	–

Sales change +8%

Change in advertising spend $7/64 \times 100 = 10.94\%$ (1)

Formula: % change in demand (sales)/% change in advertising (1)

= $8/10.94$ (2)

= 0.73 (3 marks for correct answer)

- (b) Using the information in Table 2, calculate the income elasticity of demand for BT's Broadband Option 1. [3]

Table 2: Average gross income of BT Broadband Option 1 customers

Product	Average income 2008	Average income 2009 (forecast)	Estimated change in quantity demanded
BT Broadband Options 1	£31,000	£30,320	+3%

Estimated change in quantity demanded = +3%

Percentage change in income = $-680/31,000 \times 100 = -2.19\%$ (1)

Formula: % change demand/% change in income (1)

= $3/-2.19$ (2)

= -1.37 (3 marks for correct answer*)

* If the minus sign is not present in the answer the maximum mark should be 2 marks.

Page 3	Mark Scheme: Teachers' version	Syllabus	Paper
	Pre-U – May/June 2010	9771	02

(c) Comment on the significance of these elasticity values for the strategic direction of BT. [6]

	Knowledge AO1 2 marks	Application AO2 4 marks
Level 2	2 marks Candidate shows clear knowledge of the elasticity concepts and values.	4–3 marks Candidate clearly applies both elasticity values using clear case context.
Level 1	1 mark Candidate shows some knowledge of the advertising and income elasticity concepts.	2–1 marks Candidate includes some application of elasticity to the case context.

Advertising elasticity (AED)

- Definition of AED.
- Formula for AED.
- AED is inelastic.
- Numerical interpretation: 10% increase in advertising spend leads to a 7.3% increase in quantity demanded.
- AED diagram may be used.
- Advertising expenditure by BT may need to be reviewed or BT may need to change its advertising strategy.
- ARA

Income elasticity of demand (YED)

- Definition of YED.
- Formula for YED.
- Elasticity values suggest BT Broadband Option 1 is an inferior good (-1.37).
- If income falls 1% then quantity demanded rises by 1.37% (elastic).
- YED diagram may be used
- BT Broadband Option 1 is the basic package and is an inferior good so in an economic slowdown customers may choose this option.
- BT should plan for continued demand during the economic downturn and ensure sufficient supplies of components and support for Option 1.
- The case data for income and change in demand are estimates/forecasts.
- ARA

Page 4	Mark Scheme: Teachers' version	Syllabus	Paper
	Pre-U – May/June 2010	9771	02

- (d) 'In the Broadband market BT offers 3 options, ranging from the entry level Option 1 to the premium Option 3. The different packages represent different download allowances, connection speeds and additional features such as anti-virus software.' (lines 46–48)

Analyse potential pricing strategies for BT's Broadband Option 1.

[13]

	Knowledge AO1 2 marks	Application AO2 5 marks	Analysis AO3 6 marks
Level 3		5 marks Candidate fully engages with the case context.	6–5 marks Candidate fully develops analytical points.
Level 2	2 marks Candidate shows clear and precise knowledge of pricing strategies.	4–3 marks Candidate links case material to his answer.	4–3 marks Developed analysis of arguments.
Level 1	1 mark Candidate offers a sufficient definition/understanding of pricing strategies.	2–1 marks Candidate makes a limited attempt to apply knowledge of pricing to the case study.	2–1 marks Weak analysis of ideas; failure to develop points.

- Different categories of pricing strategy: Cost, Market-Customer, Competition.
- Potential pricing strategies could include mark-up, penetration or going rate.
- Recognition that consumers are usually more price sensitive in an economic slowdown
- Very competitive market.
- How does BT Broadband Option 1 fit into the full Broadband offering (Options 1–3).
- Is the Broadband package a stand alone product or bundled?
- What is the objective of BT for this particular package?
- What role does Ofcom play in determining pricing strategies?
- BT has excellent market share in the Broadband market (35%).
- The pricing strategy could be determined by the ability to cut costs and therefore keep margins.
- Could the price sensitivity of consumers be lessened by excellent customer service?
- Strategies should be realistic given the circumstances of BT and the external environment.
- The price elasticity for the product is unknown.
- Perhaps a market or consumer based approach is best given that price comparison is popular (Internet comparison sites).
- ARA.

Page 5	Mark Scheme: Teachers' version	Syllabus	Paper
	Pre-U – May/June 2010	9771	02

Section 2

	Knowledge AO1 3 marks	Application AO2 6 marks	Analysis AO3 8 marks
Level 3		6–5 marks Arguments are consistently based upon specific case context.	8–6 marks Candidate fully develops analytical points.
Level 2	3–2 marks Candidate shows detailed knowledge.	4–3 marks Candidate makes a good attempt to apply knowledge to the specific case context.	5–3 marks Developed analysis of arguments.
Level 1	1 mark Candidate shows some knowledge.	2–1 marks Candidate makes very limited attempt to apply knowledge to the specific case context.	2–1 marks Weak analysis of the ideas; failure to develop points.

	Evaluation Descriptor AO4	Marks
High	Extensive reasoned judgement in answer and conclusion	8–6
Mid	Good reasoned judgement shown in the answer and conclusion, or extensive reasoned judgement in answer or conclusion	5–3
Low	Weak judgement shown in answer or conclusion.	2–1

2 To what extent is BT a successful company?

[25]

- Current situation of BT.
- What are the parameters by which success is measured: profits, market share, share price?
- Different stakeholders may view success differently.
- The compliance with objectives (stated or implied) can be a measure of success.
- Relative success of BT compared to new rivals.
- Success can be judged relative to the prevailing economic conditions.
- Ratios/ numerical formulae and manipulation may be used to support ideas.
- BT has experienced differing levels of success depending on the division and market.
- The success of BT is partially in the hands of the regulators.
- ARA
- Evaluation could include: A reasoned view with supporting evidence; what is success and from which perspective; discussion about the extent of any success; reaching a decision highlighting that success is relative, possibly transient and to some degree determined by external factors; recognition that regulatory bodies have a remit to review companies such as BT; how is success defined? BT has many potential success criteria such as environmental and shareholder value.

Page 6	Mark Scheme: Teachers' version	Syllabus	Paper
	Pre-U – May/June 2010	9771	02

3 Evaluate the strategies which BT could adopt in response to a prolonged worldwide economic slowdown. [25]

- Question mentions a prolonged economic slowdown, so the strategy needs to mid to long term.
- The slowdown will be more severe in some markets and BT may concentrate on the more robust markets.
- The slowdown in growth may be accompanied by falling interest rates (inflation depending). This may make borrowing for potential capital investment cheaper.
- BT may need to be very price competitive as this is important in a downturn.
- The services that BT provides could be viewed as relatively robust, even in a slowdown.
- It may see a large fall in demand for its premium products.
- BT will need to closely monitor the actions of its competitors or try to lead the market.
- BT could consider cost cutting to preserve profitability.
- BT could increase diversification or concentrate on its most profitable areas.
- BT may cut its dividend to enable further investment.
- BT may try to grow revenues in new areas of telecommunications or other aspects of new/low exposure markets.
- BT may try to reduce the impact of the slowdown by keeping/improving its excellent customer service record.
- BT may seek regulatory approval to increase the costs of using its infrastructure.
- ARA
- Evaluation could include: A strategic response is essential: how deep is the economic downturn; are BT's core products highly sensitive to falling incomes; what are the core priorities and which elements of a strategy are required in the short term-long term? Potential benefits of a slowdown could be incorporated, such as the potential demise of competitors; focus on cost savings giving rise to long term efficiencies.

4 Discuss how BT could maintain and improve its reputation for good customer service, while trying to reduce costs. [25]

- What are the types and levels of customer service that customers want (market research)?
- Review customer service measures of competitors.
- Reputation for good customer service could be promoted by highlighting awards such as the Reader's Digest award.
- Make sure customer service is used as a Key Performance Indicator (KPI).
- In house training-costs?
- Monitoring of customer service via feedback or taped customer service conversations.
- Good customer service can reduce costs by getting issues resolved 'first time'.
- Poor customer service would have its own costs, such as customers leaving BT.
- Costs could be reduced in other areas apart from customer service.
- Is there any scope for cost reductions in customer service when customers could view this as a USP for BT?
- ARA
- Evaluation could include: Is cutting costs necessarily going to impact on customer service; does customer service or cost reduction have the greater strategic importance; cost reductions can be made to other areas such as Global Services; to what extent is customer service a distinguishing feature for BT; what is the extent of any cost cuts?