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2

90845



NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA

QUALIFY FOR THE FUTURE WORLD
KIA NOHO TAKATŪ KI TŌ ĀMUA AO!

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Level 2 Business Studies, 2016

90845 Apply business knowledge to a critical problem(s) in a given large business context

2.00 p.m. Friday 25 November 2016
Credits: Four

Achievement	Achievement with Merit	Achievement with Excellence
Apply business knowledge to a critical problem(s) in a given large business context.	Apply in-depth business knowledge to a critical problem(s) in a given large business context.	Apply comprehensive business knowledge to a critical problem(s) in a given large business context.

Check that the National Student Number (NSN) on your admission slip is the same as the number at the top of this page.

You should attempt ALL the questions in this booklet.

Pull out Resource Booklet 90845R from the centre of this booklet.

Refer to relevant business knowledge and/or Māori business concepts in your answers.

If you need more room for any answer, use the extra space provided at the back of this booklet.

Check that this booklet has pages 2–12 in the correct order and that none of these pages is blank.

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Merit

TOTAL

14

ASSESSOR'S USE ONLY

QUESTION ONE: TECHNOLOGY CHANGES

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Use the information from Resource A, and your business knowledge, to answer this question.

DT Airlines' website can crash when the company advertises special deals on some flights. Through changes in technology, new solutions to this issue can be found, but David as CEO is slow to react to these changes.

- (a) Fully explain ONE cost and ONE benefit for *DT Airlines* of not responding to changes in technology promptly.

• One cost of not responding to changes in technology is that *DT Airlines* lags behind competitors in the efficiency of their overall services. *DT Airlines* has a problem of their website crashing and this problem can be solved as new technology is available to solve it. The crashing of the website makes customers experience less efficient and more problematic which could make them unhappy with the experience provided to them by *DT Airlines*. If customers are unhappy they may decide to not return to *DT Airlines* resulting in a loss of market share which can reduce their revenue and profit.

• A benefit for *DT Airlines* of not responding to changes in technology ~~is that~~ ^{promptly} is that it allows *DT Airlines* to wait and see if the new technology is accepted and used by their target market. A mismatch in business-technology and consumer technology could mean that a large portion of the market is excluded because they do not use the technology. So by not responding quickly, *DT Airlines* can see how the market reacts to the new technology allowing them to assess if the technology will be a good investment.

- (b) Discuss TWO solutions to *DT Airlines'* technology problem of the website crashing when customers try to book flights with the company when special deals are advertised.

In your answer:

- describe TWO possible solutions
- fully explain how EACH solution would solve the problem of the website crashing
- justify, with TWO reasons, why one solution would be more effective for *DT Airlines* to implement than the other.

One possible solution could be for *DT Airlines* to ~~for~~ employ an IT specialist who would be in charge of managing the website's sustainability. Having an IT expert in charge of running the website will mean that if any changes are needed to be made to the website or if anything is needed for improvement to the systems, the IT specialist will be able to make the changes to the website in order to keep it running smoothly. Any advances in technology will also be spotted by IT and they would be able to let management know about to improve the systems of *DT Airlines*.

Another solution could be for *DT Airlines* to adopt the new technology promptly in order to stop the website from crashing. Adopting the new technology will mean that *DT Airlines* will not have a problem of the website crashing when too many customers are trying to access it. This will mean the customer experience remains efficient and they won't be made unhappy by not being able to get a hold of the specials on the website.

More space for this answer is available on the next page.

The better solution is for DT airlines to adopt the new technology promptly. One reason it is better is because adopting new technology will permanently solve the problem of the website crashing when too many people are trying to access it. Larger capacity for website traffic will mean people can access it without it crashing. Having an IT specialist will only temporarily solve the issue as they may not be able to limit the flow of traffic on the website continuously and it may crash again when a new special is advertised.

Another reason it is better is that it may be more cost effective than employing someone to specialise in running the website. The one-off capital investment to fix the problem may cost less money in the long-term than adding another employee to the wage list. With an IT specialist they will cost wages and more maintenance will still be required because the problem is not fully fixed, whereas new technology will incur one installation cost and lower maintenance costs and will be cheaper in the long-term and will fix the problem of the website crashing.

M5

QUESTION TWO: PROBLEMS ARISING FROM UNETHICAL BUSINESS PRACTICE

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Use the information from Resources A and B, and your business knowledge, to answer this question.

David has tried to argue that the practice of over-booking flights is not illegal. However, it is widely viewed as unethical. Social media reaction to the Labour Day special offer from passengers who missed their flight – despite having a valid ticket – has led to negative publicity for DT Airlines, and bookings are falling.

- (a) Fully explain ONE problem arising for DT Airlines from its failure to respond to the unethical business practice of over-booking of seats on its flights.

• One problem of failing to respond to unethical practices is bad publicity.

Bad publicity could mean that the reputation of the brand is tarnished and customers do not see DT airlines as a good company to do business with. Bad comments on social media from angry customers has led to negative publicity, resulting in a fall in the amount of bookings being made which is due to a loss of customers. A loss of customers means that revenue for DT airlines is falling and profits will also fall. Therefore the problem of bad publicity will go on to have long-term impacts on DT airlines.

- (b) Discuss TWO solutions to resolve the unethical business practice of the over-booking of flights which DT Airlines is facing.

In your answer:

- describe TWO possible solutions
- fully explain how EACH solution may resolve the unethical practice
- justify, with TWO reasons, which of the two solutions would be better for DT Airlines to implement to resolve the unethical practice.

- One possible solution to the unethical business practice is for DT airlines to stop having over-booking policies. This will mean that the issue of over-booking will not be faced by DT airlines or their customers again. This may resolve the unethical practice as the customers will have got what they wanted as double bookings can no longer occur which means they will not need to face the ~~disse~~ disappointment of having a valid ticket that will not get them on the flight. This will then rid DT airlines of the unethical practice.
- Another solution could be for DT airlines to take part in some form of corporate social responsibility. Taking part in some form of corporate social responsibility will mean that DT airlines can get some good publicity in the media. By showing ethical practices DT airlines may be seen as a ethical business that tries to do the correct thing.
- The better solution would be for DT airlines to not have any overbookings and stop taking bookings once flights are full. One reason this is better is because the unethical practice DT airlines was being

blamed for was their overbooking policies. By getting rid of overbookings all together the issue of the unethical ^{practices} will be resolved as it is something that can no longer occur.

It is also better as it won't have any extra expenses to the DT airlines. Getting rid of overbookings will not cost DT airlines any money and will not negatively impact their revenue or profit. Undertaking a CSR strategy will likely cost DT airlines money which would then negatively impact their profits. So therefore getting rid of the overbooking system all together is the better option as it will also make customers happy because the unethical practice is gone, and it will not cost DT airlines any money to get rid of it.

QUESTION THREE: THE EMERGENCE OF A NEW COMPETITOR

Use the information from Resources A and C, and your business knowledge, to answer this question.

The emergence of *Econofare* as a competitor to *DT Airlines* creates a real threat to *DT Airlines'* long-term economic sustainability.

- (a) Fully explain why *DT Airlines* will need to respond to the emergence of the new competitor.

DT airlines will need to respond to the emergence of Econofare as a competitor because they become another option for customers and DT airlines risks to start losing. If DT Airlines does not respond appropriately they will lose customers to Econofare. This then means that customers will stop using DT airlines which means that DT airlines will have a decrease in revenue and have lower profit figures. Therefore DT airlines need to respond as Econofare could potentially take away market share from them making DT Airlines the second best option for customers.

- (b) Discuss TWO solutions which *DT Airlines* could implement to address the emergence of the new competitor.

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In your answer:

- describe TWO possible solutions
- fully explain how EACH solution would deal with the emergence of the new competitor
- justify, with TWO reasons, which solution would be more appropriate for *DT Airlines* to implement, in order to remain sustainable in the long run.

• One solution to address the emergence of Econofore is to lower their prices to be more competitive with Econofore and be more appealing to customers. This solution may deal with the emergence of the new competitor as customers flying these routes will want to pay the lower amount to reach their destination. Cheaper prices will also be a more attractive option to new customers who want to fly the routes offered to them by both *DT Airlines* and Econofore. //

• Another solution could be for *DT Airlines* to add a new feature to their planes. *DT Airlines* could offer a more premium service by offering a business class section. Having a more premium service, *DT Airlines* could gain the attention of passengers wanting to get a premium experience. This gives *DT Airlines* a competitive advantage over Econofore as they will have a premium ~~sed~~ option for customers in a more niche market whereas Econofore won't. //

More space for this answer is available on the next page.

The better solution is for DT Airlines to add a new feature to its plans in the form of a premium business class option. This is better because they will be catering to a niche market that Econofare does not cater to. This means that DT Airlines has exclusive access to wealthier customers wanting a premium option. With a more premium option they will also be able to increase prices leading to a potential increase in revenue and profit.

Another reason it is the better option is because lowering prices might not be enough to convince customers into choosing DT Airlines over Econofare. Customers may look at the services and the quality of the services rather than the prices meaning that the premium business class option is better as it gives DT Airlines a competitive advantage.



Extra space if required.
Write the question number(s) if applicable.

ASSESSOR'S
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QUESTION
NUMBER

90845

Merit exemplar for 90845 – 2016		Total score: 14
Q	Grade score	Annotation
1	M5	The candidate has fully explained one cost and one benefit of not responding to technology promptly, but has not indicated what the new technology specifically is. Two solutions have been fully explained, but the second is more appropriate than the first.
2	A4	The solutions are appropriate up to a point, but have not been fully explained. The candidate has not indicated exactly how adopting corporate social responsibility would resolve the unethical practice. Business knowledge only stated.
3	M5	The first solution is weak and unsustainable. The second solution is better, with full explanation and good use of business terms, such as “niche market”.

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90845



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Merit

TOTAL

16

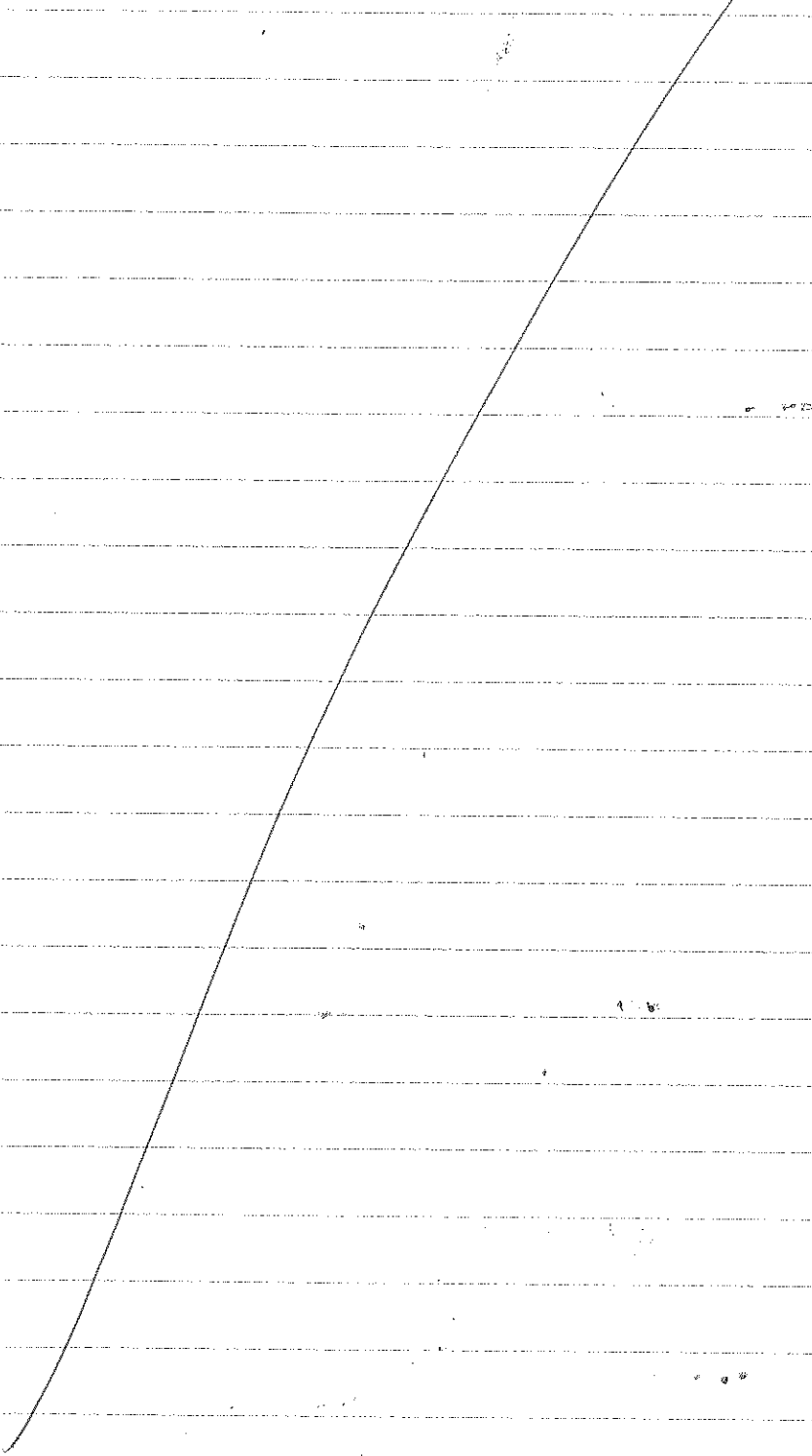
ASSESSOR'S USE ONLY

QUESTION ONE: TECHNOLOGY CHANGESASSESSOR'S
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Use the information from Resource A, and your business knowledge, to answer this question.

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- (a) Fully explain ONE cost and ONE benefit for *DT Airlines* of not responding to changes in technology promptly.



Level 2 Business Studies

Benefit: They are not paying to get the site repaired, which means their expenses will not increase.

Question 1: a

Many companies do not like change, especially in the technology area, a sector that moves so quickly it can fast become out-dated. DT airlines has identified a problem with their website, the only way to book their flights, crashing under the load of customers when a sale is advertised. Although this issue is having a negative impact on the company, there are also benefits for the company.

One reason this technological failure is impacting the company in a negative light is that by having a website that frequently crashes, they will lose sales and customers, costing the company financially. The whole idea of advertising sales is to increase the amount of tickets purchased, as customers like the idea of getting cheaper flights, however if the website crashes under the load of these customers then less of them will be able to book, reducing the effectiveness of the sale. This ends up costing the company money, not only on advertising, but also the flights themselves. Budget airlines operate on the idea of selling as many seats as possible, in order to offer the cheaper flights they are known for. If only a few customers buy the tickets before the website crashes, then the flights will be mostly empty, and end up costing the company money, possibly even negating the effectiveness of the sale. The idea of a constantly crashing website is also not a good first impression for new customer, and could discourage returning customers. In an age where online transactions are becoming more and more popular, the idea that your information could be at risk is a strong discouragement to people allowing access to things such as name, address, and most importantly their bank accounts. This can be all accessed during a website crash, as many of the security protocols are overridden by people trying to get the website operational as fast as possible. This leads to a negative impression from customers, and could discourage new and return shoppers, leading to less business, less income, higher expenses, and lower profits.

One benefit for the company is that by avoiding fixing the problem they are saving the company from paying the costs of reworking the website to fix the issues. If the CEO, David Tracy, does not see the value of this idea he will not invest. He is quoted as saying "New ideas need to show real value to the customers before DT Airlines will invest large capital sums in new online services". This shows that he is more willing to suffer crashes in his website

- (b) Discuss TWO solutions to *DT Airlines'* technology problem of the website crashing when customers try to book flights with the company when special deals are advertised.

In your answer:

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than invest company money, that would otherwise possibly be profits, into repairing his website. While he is almost certainly saving money on reworking the website, it may not be worth it, as the costs may outweigh the benefits.

b.

When looking at this problem, two solutions present themselves: the idea of starting fresh, with a new website, marketing tool, frequent fliers benefits, and a mobile app, or repairing the current website so that it is fully functional, but no further.

This technological failure could perhaps offer an opportunity to invest in a new company image, rebranding themselves as a cutting edge company, with a number of attractive features to attract more customers. At the same time, a rework of the website and booking system would fix the issue that they are currently experiencing, and at the same time allow AT Airlines to implement a number of new features. These could include features such as new marketing, a more modern and faster website for customers to use, and allow them to put a frequent fliers program into effect, rewarding their most loyal customers, and attracting more. They could also look into tapping into the rich market of mobile shopping, which has exploded in recent years. The popularity of mobile phones, and online shopping has created a new digital marketplace. The ability to purchase flights, keep track of your boarding ticket, and get a reminder of when your plane is leaving all from your phone would appeal to many people, especially those who are busy, and have little time to check their tickets, such as travelling businessmen and woman.

The other option is to keep the current website, and hire professionals to find the issue with the website crashing and fix it. This might be as simple as an issue with the code, or may require the company to invest newer, or more servers. This would allow the company to produce and market sale without the need to worry about the website crashing under load. This solution may not be cheap, as looking through code trying to find errors, can be very time consuming, and may cost the company in lost sales while the website is being repaired.

A rework of the website, combined with new features is the better option, as it will allow the company a reason to expand their digital imprint, with better marketing, a smoother service, reward systems and a mobile app. This would open the company up to a number of new customers, and help retain previous travellers. Resource A states: "DT Airlines ... is slow to take up new marketing and technological ideas". As a business totally reliant of digital sales, DT Airlines cannot afford to become out-dated, as they will lose customers and fail to attract new ones if the booking process is harder than their competition. It would also allow the company to fix the issue of the

QUESTION TWO: PROBLEMS ARISING FROM UNETHICAL BUSINESS PRACTICEASSESSOR'S
USE ONLY

Use the information from Resources A and B, and your business knowledge, to answer this question.

David has tried to argue that the practice of over-booking flights is not illegal. However, it is widely viewed as unethical. Social media reaction to the Labour Day special offer from passengers who missed their flight – despite having a valid ticket – has led to negative publicity for *DT Airlines*, and bookings are falling.

- (a) Fully explain ONE problem arising for *DT Airlines* from its failure to respond to the unethical business practice of over-booking of seats on its flights.

website crashing under load, and would allow it to become more capable of handling larger amounts of customers. This would help the company avoid paying for the same rework again, when and if the company continues to expand at the current rate.

44

Question 2

a.

One problem arising from the failure to address the unethical practise of over booking is that the labour day incident is having a negative effect on the company image, resulting in, as resource A states: "Bookings for *DT Airlines services have since fallen*". This shows the effect that negative news stories like this have on a company. This failure to address the issue, with the CEO maintaining that "Over booking in the industry is common practise and was not illegal" (source B), has a negative impact on the company's social image. This deters new customers from flying with what they perceive to be an unethical company. This results in less ticket sales, and less ability to attract new customers, resulting in lower income, higher expenses per flight if they are not fully booked, and lower profits. This negative effect on the companies image is not just in the news, its says in source A that "He [David Tracy, CEO] was horrified to read social media comments from frustrated customers". This shows that not only were they frustrated with the company, they were putting their opinions online, and allowing anyone to see the company and consider flying with them to see what has happened, and this might again, deter new customers from flying with them.

b.

Some of the options to avoid this happening again, are to stop the practise of overbooking, or to adequately compensate the customer so that they do not feel let down with the company when they miss their flight. The first idea, to stop overbooking completely, would eliminate the unethical business practice. It would ensure that every customer who purchased a ticket would be seated, and would result in now negative feedback from dissatisfied customers. It would also lead to higher expenses, as the cost of flying the plane per customer would go up. This would lead to lower profits, and perhaps higher ticket prices to make up for the "5-10 percent of passengers [that] fail to turn up" (Resource B). The other option is to adequately compensate the customers that miss their flight, helping resolve the issue of them venting their outrage and disappointment at the company. This could include trying to get them on the next flight, paying for accommodation and food while they are stranded, and

- (b) Discuss TWO solutions to resolve the unethical business practice of the over-booking of flights which *DT Airlines* is facing.

In your answer:

- describe TWO possible solutions
- fully explain how EACH solution may resolve the unethical practice
- justify, with TWO reasons, which of the two solutions would be better for *DT Airlines* to implement to resolve the unethical practice.

free upgrades to the next class on their next flight. This could be conditional on the customers ensure they wouldn't speak out about their treatment, provided they thought it was fair. This would help eliminate the public outrage that the dis-satisfied customers felt, and would make the customers feel valued by the company. //

The idea of compensation for the frustration of the customers is the better solution here, as it allows the company to continue to operate with the same level of bookings, and therefore income, at a marginal decrease in profits. Not only will they not have to adjust anything about their marketing, booking, and check in system, but it will continue to keep the income steady. This allows the company to save money, as compared to the other option, which would cost the company money on flights, and bookings. Not only would it help improve the profits of the company, but it would also improve the public image of the company, as the public would see they are trying to help those that the CEO said were "an unlucky ... small group of passengers" (resource b). This would help negate the effects of dissatisfied customers venting their frustrations online, and would help ensure that that doesn't detract customers. It also makes the practice seem less unethical, as it is helping those who lost out, helping compensate them for their loss. This helps the public see the company as less of a corporate machine and more of a home grown New Zealand company, looking to help those in need. This in turn is great for the company's image, allowing them to attract new customers. //

(E7)

Question 3

a.

The emergence of a new competitor is important for DT Airlines to respond to, as it reduces the monopoly that DT once had on the market. This increase competition is good for the customer, but less good for the business, as it often leads to lower prices in a bid to undermine the other company and steal their customers, more features for the same price, and an effort to differentiate themselves from their competitor. If they do not address this issue they could find themselves being undercut by cheaper fares, better service, and a better social image to the public. //

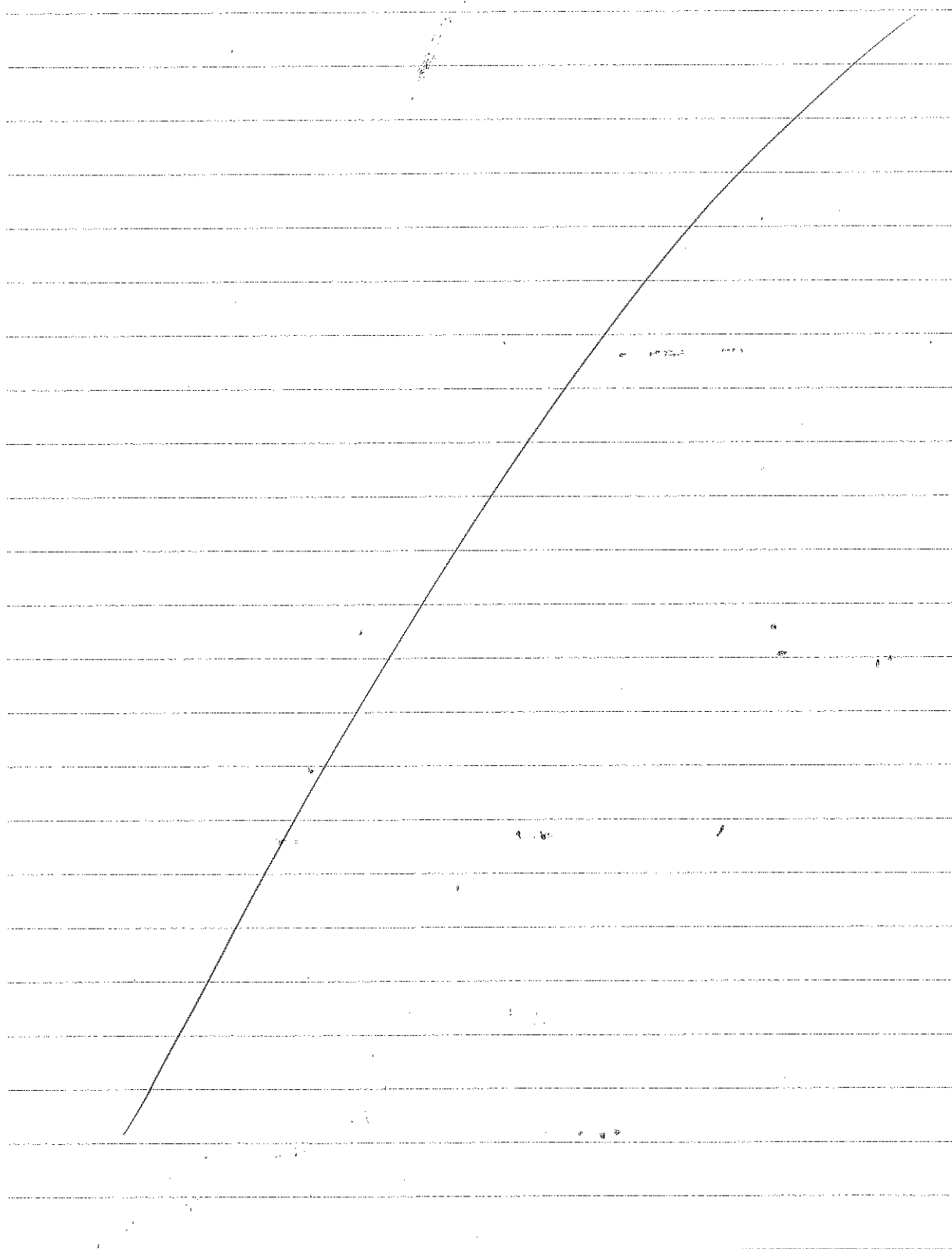
Resource A states: "By offering services to regions not serviced by its main competitors, DT Airlines was able to charge high prices". The emergence of a competitor, eager to poach customers is likely to offer similar flights, but at lower prices. This could lead to a number of the more budget orientated fliers to change airlines, as they now do not have to pay a premium for their flights. This in turn could make the company seem greedy, and expensive, both factors that could deter new customers. The competitor might also have

QUESTION THREE: THE EMERGENCE OF A NEW COMPETITOR

Use the information from Resources A and C, and your business knowledge, to answer this question.

The emergence of *Econofare* as a competitor to *DT Airlines* creates a real threat to *DT Airlines'* long-term economic sustainability.

- (a) Fully explain why *DT Airlines* will need to respond to the emergence of the new competitor.



perks that the current *DT Airlines* does not offer, such as frequent fliers, a smoother website and a mobile app. Without addressment, this could lead to the downfall of *DT airlines*.

b.

One of the options *DT Airlines* could offer is to lower prices to come inline with the competition when they start flying. Another option is to implement systems to help retain customers, possibly through higher quality of service, benefits for return customers, and more affordable options.

By lowering the prices when the prices to ones more inline with their competitors, they would help remain a more viable option, and would impress previous customers with their lower prices. This would help retain current customers, and keep *DT Airlines* as a clear and viable alternative to their competitors.

The other solution, of implementing a reason to stay, such as higher quality of service, benefits for returning customers, and more affordable options for the budget constrained allows the airline to continue operating with minor changes to its current style. It also allows *DT Airlines* to be seen as a premium option, and therefore attracting customers who are less concerned about prices and care more about treatment. In doing so, they help secure the business of lucrative frequent travellers, who can often use their companies money to pay for flights and accommodation. They could also implement a system for current customers, that rewards them for choosing to fly *DT Airlines* and would help incentives them to do so again in the future. This would help retain their current customers, and avoid losing them to their competitors.

The solution of retaining their current customers through incentives is a better strategy, as it not only allows for the same, if not higher prices, but it also requires less effort, and costs the company less than straight reducing prices. Instead of just competing with Econofare, it allows them to differentiate themselves, offering a superior service, and allows them to appeal to a new type of customer.

The solution also rewards current customers, helping them see *DT Airlines* as their airline of choice. By implementing a system of rewards for frequent fliers, it helps continue to secure their business in the future, as they are gaining an incentive to stay with the company. It could also be expanded to partner with rental car companies, or perhaps recommend certain accommodation to their customers, perhaps even discounts on prices if they show they flew with *DT Airlines*. This would not only improve the impression of the airline, but also help them connect with other businesses, that could prove helpful in the future. It would help give a reason to choose *DT Airlines*, and help them continue to be sustainable.

- (b) Discuss TWO solutions which *DT Airlines* could implement to address the emergence of the new competitor.

In your answer:

- describe TWO possible solutions
- fully explain how EACH solution would deal with the emergence of the new competitor
- justify, with TWO reasons, which solution would be more appropriate for *DT Airlines* to implement, in order to remain sustainable in the long run.

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Merit exemplar for 90845 – 2016		Total score: 16
Q	Grade score	Annotation
1	A4	Solutions have only been explained, and not fully developed in terms of the impact of the special deals crashing the website. Mostly Achievement evidence.
2	E7	Very good use of the stimulus material, and some fully explained solutions. The second solution infers that the practice of overbooking could still continue if consumers remain silent. There is really only one justification, but from a holistic marking point of view there is sufficient evidence to award E7.
3	M5	The first solution is weak, and is overshadowed by the quality of the second solution. Business knowledge is included, but not fully integrated.