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91380



NEW ZEALAND QUALIFICATIONS AUTHORITY
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Level 3 Business Studies, 2016

91380 Demonstrate understanding of strategic response to external factors by a business that operates in a global context

9.30 a.m. Friday 25 November 2016
Credits: Four

Achievement	Achievement with Merit	Achievement with Excellence
Demonstrate understanding of strategic response to external factors by a business that operates in a global context.	Demonstrate in-depth understanding of strategic response to external factors by a business that operates in a global context.	Demonstrate comprehensive understanding of strategic response to external factors by a business that operates in a global context.

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

There is ONE task in this booklet. You should attempt ALL parts of the task.

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.

YOU MUST HAND THIS BOOKLET TO THE SUPERVISOR AT THE END OF THE EXAMINATION.

Excellence

TOTAL

E7

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Use the background information below, the supplementary information in the other boxes, and your business knowledge to complete this task.

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Toroa Air is a "no-frills" (budget) domestic airline which has rapidly expanded from local tourist flights to scheduled services between the larger cities in New Zealand. It has increased its share of the New Zealand domestic flight market, as customers like its strong New Zealand cultural values. Financial institutions have been willing to

invest to fund the recent growth of *Toroa Air*, due to its strong leadership.

However, *Flying Koala Airways*, an Australian airline, has just announced that it will look to expand into the New Zealand market and apply for routes that will put it into direct competition with *Toroa Air*.

Image source: https://lh3.googleusercontent.com/-hy8V8Jzux8/TY5_gYizp0I/AAAAAAAAAFJU/UxmUFOdzSk/s1600/a319.jpg

- (a) Evaluate a strategic response that *Toroa Air* could take to respond to the entry of *Flying Koala Airways* into its domestic market.

In your answer:

- state the strategic response and explain why this is a business-wide reaction at multiple levels (at least TWO of size, scope, and timeframe)
- fully explain ONE positive impact and ONE negative impact on *Toroa Air* of the strategic response
- provide a justified conclusion, including any new information, as to the likely success of the strategic response.

A strategic response *Toroa Air* could ^{take} ~~implement~~ in response to the entry of *Flying Koala Airways* into its domestic market is to expand and diversify their business by flying more routes to the smaller cities such as New Plymouth, Nelson and Whangarei. Although they don't have the passenger volume that the larger cities have or the tourism attraction feature to them they still have a steady flow of passengers that travel for business and holidays. This response is a business-wide reaction as large numbers of *Toroa Air*'s employees will be involved in it. Pilots, cabin crew management, ^{people} marketing are a few who will be involved in promoting.

and ensuring the new routes function as they should. By increasing the number of routes Torua Air ^{it will prepare} ~~fly them~~ ^{experience and} them and provide them with the scope to expand even more in the future, ~~to~~ to locations such as international destinations.

One positive impact of diversifying and flying more routes to the smaller cities is it will help them increase their brand image, so more people are aware of who they are and their strong New Zealand cultural values. With more people becoming aware of who they are, more people will fly with them ~~and experience~~ because of their reputation as well as their cheap flights. This will result in an increase in sales, which will in turn help increase their gross profit and ultimately their net profit. With greater net profit they will be able to invest it back into the business to help them grow and compete against flying Koda Airways ~~in a great way~~ in a greater way.

One negative impact of flying more routes to the smaller cities is they will have to purchase more aircraft to service these routes and being a budget airline they may not have the capital to purchase them and pay them off in a reasonable time frame. Being only a budget airline would mean they can't charge a lot for their flights, so they wouldn't be as well off as some of the more luxury airlines. By flying routes to number of smaller cities the number of planes they have to purchase and the length of time taken to pay them off may limit Torua Air financially and ~~we~~ cause them to have a

Toroa Air has gained in financial strength from its rapid domestic growth, and is now looking to expand globally. Market research has shown that people of Indian descent represent one of the fastest-growing ethnic groups in New Zealand. It is predicted that demand for flights to and from India will increase as these people travel to visit family. The New Zealand Government is negotiating a free trade agreement with

India. In addition, there are currently no direct flights from New Zealand to India. *Toroa Air* has seen an opportunity to become an international airline by providing flights to New Delhi, the capital city of India. It is now seeking business support for its expansion plans.

Image source (adapted): https://en.wikipedia.org/wiki/File:New_Zealand_India_Locator.svg

- (b) Fully explain ONE example of business support provided by a government or non-government agency that might benefit *Toroa Air* with its plans to expand by introducing flights to India.

In your answer:

- identify an agency and explain the type of support it provides
- fully explain the impact this may have on *Toroa Air*'s expansion plans.

An One Agency that might support *Toroa Air* with its plans to expand by introducing flights to India is NZTE (New Zealand Trade and Enterprise). NZTE has a website and is a support agency designed to help businesses as they look to expand internationally. They are a governmental agency that liaises with the country a business is looking to expand into and helps provide the business with an easier pathway into that country. In New Zealand around 4000 businesses are helped by NZTE, while 100 of these businesses are intensely helped and looked after because of their international commitments importance internationally and the revenue they provide to New Zealand as a result of their exports. To ask for help businesses can go onto their website and get directions from there.

The support of NZTE will have a positive impact on //

Torua Air's expansion plans as they will be able to provide Torua with valuable help and guidance through the process. With a free trade agreement being negotiated with India, NZTE will be able to help ^{move it along} ~~speed it up~~, so New Zealand businesses can benefit from it. NZTE will be able to help Torua Air take advantage of the free-trade agreement once it has been agreed to, and this will help provide Torua with much better movement of resources between the two countries. With a free-trade agreement there will also be much better trade relationships between the two countries and any ~~misunderstandings~~ problems will be able to be negotiated and solved easier. Through NZTE helping Torua Air it will help their expansion into India become a success, and ~~grow their~~ lead to them growing their sales as $\frac{1}{2}$ the Indian people travel between the 2 countries to visit their family. With growing sales eventually leading to greater ^{profitability} ~~net profit~~ for the business, it will provide Torua Air with the capital and investment expenditure to expand even further and fly flights to locations ^{international that have} ~~where people~~ large ~~are~~ numbers of people that visit New Zealand. So the support agencies ^{such as NZTE} are important in helping New Zealand businesses grow and expand ~~internationally~~ onto the international scene.

Environmentally conscious consumers expect airlines to operate in a more sustainable manner. According to a recent report, airlines around the world produce more than 3.15 million tonnes of cabin waste (used paper cups, plates, and packaging) each year. Senior managers at *Toroa Air* have decided they will demonstrate rangatiratanga in this area, and will work with specific stakeholders – suppliers, customers, and employees – to reduce their environmental impact.

Image source: www.shutterstock.com

Māori concept definition

Rangatiratanga: Exercise of leadership, authority, guardianship, and ownership rights; particularly focused on resource production, utilisation, and management for current and future requirements. This includes strategic development and oversight, relationship development and maintenance, problem-solving, conflict resolution and peace-making, adaptation, risk analysis, and management.

Source: <http://seniorsecondary.tki.org.nz/Social-sciences/Business-studies/Maori-business/Culture-and-values#Rangatiratanga>

- (c) Fully explain why it is important for senior managers to demonstrate rangatiratanga in tackling the issue of aircraft cabin waste.

In your answer, refer to:

- how management at *Toroa Air* could demonstrate rangatiratanga in tackling the waste issue
- the consequences for *Toroa Air*'s relationships with its stakeholders of demonstrating rangatiratanga.

It is important senior managers demonstrate rangatiratanga in tackling the issue of aircraft cabin waste because they are the leaders of *Toroa Air* that are expected to solve any key issues that could damage *Toroa Air*'s reputation and ensure they are seen as a sustainable airline. Management at *Toroa Air* could demonstrate rangatiratanga in tackling the waste issue by consulting with their stakeholders and implementing some sustainability guidelines and values that need to be followed for the disposal of cabin waste. By showing ~~leadership~~ ^{rangatiratanga} through implementing these conditions it will help show that the senior managers care about their impact on the environment.

and want to preserve ^{their} ~~the~~ image of an environmentally
conscious airline. This points up that management are
expressing Rangahatanga which will help them to
succeed and ensure they stay a viable airline that is
a pleasure to fly on, long into the future.

~~The consequences for Tora Air's relationships with its~~
~~stakeholders~~ By demonstrating Rangahatanga ~~it~~ it will
help improve Tora Air's relationships with its stakeholders.
~~Through showing their leadership it will help point up~~
~~that management~~ stakeholders ~~will~~ such as customers, suppliers
and employees will be able to see ~~they~~ Tora Air care
about the environment and the well-being of their stakeholders, which
will help improve their relationship with Tora Air through
management
continuing to show Rangahatanga ~~into the future~~ in business
activities. In the future, it will only help to grow and
nurture Tora Air's positive relationship with its
stakeholders. Through demonstrating Rangahatanga in all
business activities it will help stakeholders look favourably
on any new developments they may seek to
implement in the future such as starting some more
new international routes. So through demonstrating
Rangahatanga in tackling the waste issue it ~~will~~ ~~has~~
~~help~~ will help get stakeholders on side and provide
them with the assurance that Tora Air has the
leadership to solve any problems that arise.

Like all airlines, *Toroa Air* is quickly affected by changes in the price of fuel, as this cost takes up to 30% of operating revenue.

Currently, the leadership team is very worried about political unrest in the Middle East, especially the large oil producers like Iraq and Syria. This may push up the price of oil across the world, and therefore increase fuel costs for the airline, which would seriously undermine the company's low-cost strategy.

- (d) Evaluate a strategic response that *Toroa Air* could take to respond to rising fuel prices worldwide, caused by political unrest in the Middle East.

In your answer:

- state the strategic response, and explain why this is a business-wide reaction at multiple levels (at least TWO of size, scope, and timeframe)
- fully explain ONE positive impact and ONE negative impact on *Toroa Air* of the strategic response
- provide a justified conclusion, including any new information, as to the likely success of the strategic response.

A strategic response *Toroa Air* could take in response to rising fuel prices worldwide is they could ~~increase~~ upgrade their fleet and ~~and~~ service to ensure they get rid of the ~~budget~~ "no frills" (budget) label that has been placed on them. Upgrading their service will allow them to charge more for flights which would offset the increase in fuel prices. Although the increase in price may deter some customers their reputation will help them retain the majority of the customers they had previously. This response is a business-wide reaction as it ~~is~~ is a large change that will involve the whole workforce associated with *Toroa Air*, who will have to ensure they provide an exceptional level of service to those who fly with them. Cabin crew are ones who will be at the forefront of improving service and will have to ensure everyone that flies with them has a good experience. With the ^{improvement in service} ~~increase in price~~ it will provide *Toroa Air* with the scope to compete better with the

One positive impact of ~~increasing prices~~ ^{improving service} is it will provide foreign aid with a greater amount of help.

A negative impact of improving ~~the~~ their service is ~~an~~ increased costs will be incurred through purchasing items for providing to passengers during flights, and training staff to provide a better level of service. Although these extra costs are incurred with improving service any investment in improving a business requires cash or an investment of capital. In the short term the cost of training staff will reduce the amount of profit being made, but in the long term the extra costs will balance out with the amount of revenue that is being made and for ~~for~~ Air will be able to experience the

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

QUESTION
NUMBER

a) large debt that would limit any further developments, for a long while. Although this is contradicted by the fact that as a result of strong leadership, financial institutions may be willing to invest to help fund the purchase of new planes that ~~will help the business grow~~ ^{would otherwise be paid for by} ~~even further~~ Torea Air out of their own capital. So by diversifying and flying to smaller cities it is likely to be a success for Torea Air as it will help them grow and increase its share of the New Zealand domestic flight market. Although they should introduce their new routes one at a time and slowly, not all at once. This will prevent them from growing too quickly and not being able to meet customer demand so through ~~diversification~~ flying routes to smaller cities it will help Torea Air compete better with Flying Koala Airways and stand them in good stead for growing again in the future.

d) ~~the~~ the benefits, so providing a better service in business does cost a bit and will put a bit of strain on the financials, but as Torea Air ~~can~~ will find out it doesn't impact the business negatively for ever. So by ~~providing a strategic response~~ ^{upgrading} ~~improving~~ their service, Torea Air will raise themselves from a budget airline to a more customer-friendly airline. Even though improving their service will represent

Extra space if required.

Write the question number(s) if applicable.

ASSESSOR'S
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QUESTION
NUMBER

A considerable cost, but in the long term the benefits for Torda Air will far outweigh the extra investment. Torda Air ~~they~~ will be able to offset the increase in fuel prices ~~on~~ while still being able to make a profit which could be used to develop their fleet and flight routes business in the future. So, I feel this strategic response will be a success for Torda Air and will allow them to operate viably and become an airline that ~~is~~ ~~is~~ ~~customer friendly~~ ~~and~~ ~~also~~ satisfies the needs of every customer.

Excellence exemplar for 91380 – 2016		Grade Score: E7
Question part	Annotation	
	To be awarded Excellence, a candidate must demonstrate the ability to evaluate strategic response to external factors. This skill is assessed in parts (a) and (d).	
(a)	<p>The candidate has offered a diversification strategy, suggesting the airline open new domestic routes.</p> <ul style="list-style-type: none"> • This is explained (“what” and “why”) as a business-wide reaction in terms of scope – staff are impacted. • The positive impact is fully explained – more people will fly with them (“what”), and more routes will increase brand exposure (“why”), which will increase revenue and profits, allowing future expansion (“how”). • The negative impact is explained only – the airline will be in debt and limited financially (“what”), as they must purchase planes (“why”). To be fully explained, the candidate would have to say how the business would be affected, using correct business language. • The conclusion was at Excellence level, because the candidate introduces new, related information from the context – the funding should not be an issue, because financial institutions are willing to invest, which will allow the funding of new planes. The rest of the conclusion merely builds on the strategy. <p>The candidate has provided a strategic response, looked at the positive and negative impacts, and concluded why it will be effective. The conclusion demonstrated a comprehensive understanding. Even though the negative impact is only explained, the response is at Excellence level overall.</p>	
(d)	<p>The candidate has suggested the business rebrands to allow it to increase ticket prices.</p> <ul style="list-style-type: none"> • The strategic nature has been explained in relation to how staff will be involved. • The positive impact has been fully explained, more people will fly with them (“what”) because they have a more customer- focused reputation (“why”), and this will increase sales revenue to cover the increased fuel costs (“how”). • The negative impact has also been fully explained – costs will rise (“what”) in providing a better service (“why”), which means that the business will require cash or an investment of capital (“how”). <p>The conclusion is not at Excellence level – the candidate has suggested that the long-term benefits will outweigh the short-term costs. However, for Excellence we would expect the candidate to justify why one outweighs the other.</p>	

<p>(d) (cont'd)</p>	<p>The candidate provided some Excellence evidence, and therefore was awarded E7. As a guide, for an Excellence conclusion:</p> <ul style="list-style-type: none"> • Does the conclusion repeat the general meaning of the positive or negative impact (or only add to it)? This is not an Excellence conclusion. • Does the conclusion state that the positive impact is greater than the negative, but does not say why? This is not an Excellence conclusion. • Could the conclusion relate to any business context? If so, this is probably not an Excellence answer. • Does the conclusion state that the positive impact is greater than the negative, and explains why? This would normally be an Excellence conclusion. <p>An Excellence conclusion requires new information that demonstrates a deeper understanding of the business and its context (in this case, a small kiwi airline starting to do international travel).</p>
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