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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.

Merit

TOTAL

M5

ASSESSOR'S USE ONLY

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

ASSESSOR'S
USE ONLY

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/UxmUFOd-zSk/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.

One strategic response for *Toroa Air* is to turn their business from a domestic service to an international service. This is because *Koala Airways* is in direct competition with *Toroa Airlines*. *Toroa Airlines* now operating ~~dom~~ internationally will mean they have a larger size of potential customers because they are operating in two countries (Aus/NZ) rather than only one (NZ). The overall size of the business however will be forced to increase as they are required to build new planes to cater for the growing market. The timeframe for the strategic response is long.

term because the development of new planes and the marketing required to promote Toroa Airlines will take a long time.

Therefore the timeframe is ~~short~~^{long} term. The scope would be to get information on domestic companies in Australia and see if there is a need and whether the cost of the introduction to the Aus domestic aircraft industry is more or less than expected profit. One positive impact of Toroa's strategic response is the increase of revenue \Rightarrow profit. Toroa Air could ~~recieve~~^{more} after flying domestically in Australia. They would not be inconvenienced by Koala Air coming/expanding to ~~Australia~~ ^{NZ} because they will also have a customer base in Aus as well. One negative impact for Toroa Air would be the extra cost of adding a ~~business~~ and developing a platform in Australia. Toroa would have to increase the fleet of planes which would be expensive. They would also need to set up loading areas and pay large amounts to use Australian Airports runways. In conclusion Toroa Air's strategic response of also flying domestically in Australia could be successful if they had the capital to afford all the expenses involved with branching out to Australia's domestic market also. However, if they do that have the find the strategic response may cost them a lot of money.

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.

Toroa Air wanting to fly to India (New Delhi) will require them setting up a business over there. This will mean *Toroa Air* has to show cultural responsiveness while setting up a business. This refers to *Toroa* being able to create a cultural relationship with Indians to allow for a better working relationship. A non-government agency that could be of use would be hiring/employee and Indian representative this is because *Toroa Air* are not used to the Indian way of life and Indians may do things different to New Zealanders. Employing a representative would be useful and an advantage for *Toroa Airline*.

to learning the Indian lifestyle and the way Indian businesses operate. It provides support to Toroa teaching and guiding them about culture things in Indian business do. This is important so they don't offend the Indian culture and show respect developing a positive working relationship. This will have a significant impact on Toroa Air's expansion plans because they now with the help of the Indian Representative they understand the way of life and can create a good working relationship with New Delhi Airport. New Delhi's Airport managers and Toroa will have trust and respect for each other making it easier to do business. Therefore employing an Indian representative will mean Toroa Air has the best opportunity to create a flight from New Delhi to New Zealand.

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>

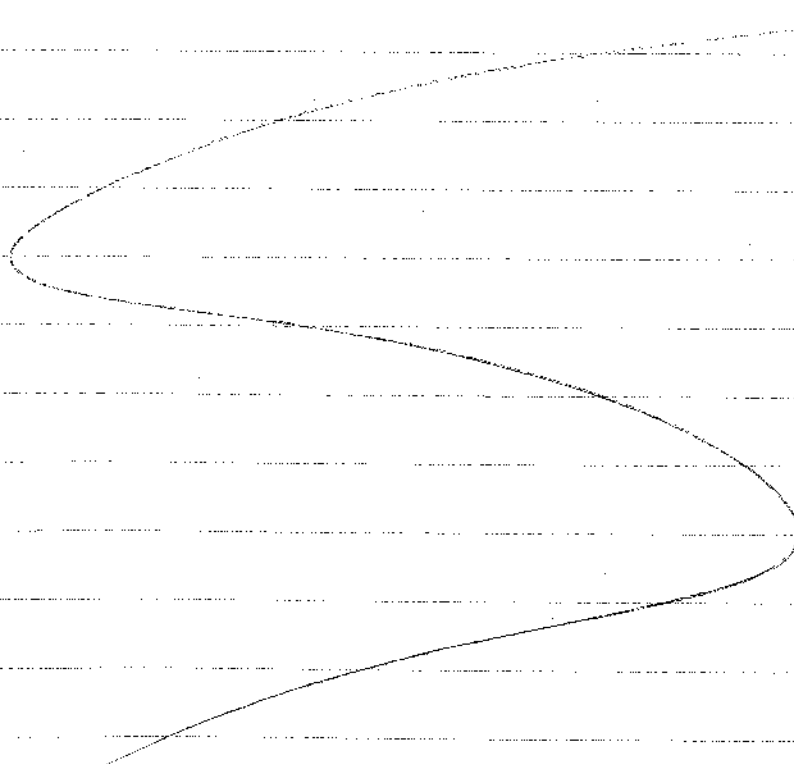
- (c) Fully explain why it is important for senior managers to demonstrate rangatiratanga in tackling the issue of aircraft cabin waste.

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.

Toroa Air could show leadership is the management by tackling the issue of carbon waste. Management could demonstrate rangatiratanga by researching into possible ways to keep carbon waste down. They could find ways to better package food and drink on planes to keep the carbon waste lower. This would impact customers of Toroa if they found ways to reduce carbon waste more customers would be interested in flying with

Torona Air because they have found ways to reduce the carbon waste on planes. Torona Air would develop a strong relationship if they demonstrated *ragnatiranga* to stakeholders. This is because they show leadership and ownership in tackling the issue of carbon waste on planes. Stakeholders would be proud that Torona Air is promoting/trying to find a way to minimise carbon waste. Customers would increase from stakeholders giving word of mouth about the leadership Torona Air has shown in decreasing its carbon waste and therefore Torona will see an increase in customers therefore an increase in revenue/profit.



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 to respond to rising fuel prices worldwide, caused by political unrest in the middle east could be to also increase these prices to cover the increasing costs. *Toroa* should pass on the increase in oil prices to customers in the form of higher prices. The scope of this response would be to work out how much % cost of production (due to higher oil prices) has increased and then pass that same (%) percentage onto the customers ticket costs. The timeframe would be short term because the price of oil can instantly increase and ^(Toroa)producers need to also instantly increase ticket prices unless *Toroa Air* wants to pay for the increase costs.

One positive impact for Toroa Air is the fact their cost of production is offset by their increase in tickets. This means the increase in oil prices will not affect Toroa's profit margin. This is because both Sales and cost of production have increased. One negative impact for Toroa Air increasing the cost of each ticket is the fact customers may not be able to afford to pay higher price because it is out of their budget and they might be forced to drive to their destination ~~or~~ instead of flying or instead not go at all. Demand decrease due to the law of demand that states - as the price increases quantity demanded decreases at each and every price level. In conclusion the success of the strategic response will be that Toroa Airlines profit margins do not decrease. If demand drops significantly however Toroa may have to slightly decrease the price the price to encourage sales at a lower price point. The success will be seen by how many ~~the~~ customers are prepared to pay to pay to pay higher price for Airline tickets with Toroa. The strategic response has high potential to be successful.

MS

Merit exemplar for 91380 – 2016		Grade Score: M5
Question part	Annotation	
(a)	<p>The candidate has explained a move into Australia as a strategic response.</p> <ul style="list-style-type: none"> • The positive impact is holistically at Merit level. More potential customers (“what”), because they are operating in two countries (“why”) – this evidence was provided on page 2. This will increase revenue and profit (“how”) on page 3. The evidence from page 3 alone is Achievement, so the suitable evidence on page 2 has been used to supplement it. • The negative impact was explained only, and therefore this is only Achievements level evidence – costs will rise (“what”) because they will need to expand the fleet of planes (“why”). A Merits level response would then discuss the impact on the business. • The conclusion discussed the need for capital and merely extends the negative impact, and is therefore not Excellence. An Excellence candidate would have drawn from the context to discuss how capital may be available through the positive relationship with financial institutions. 	
(b)	<p>A candidate demonstrating an in-depth understanding should be able to discuss an authentic agency that supports New Zealand businesses going global. The impact on the business was not provided either. This response was recognised as Achievement-level evidence.</p>	
(c)	<p>The impact of rangatiratanga on sustainability is fully explained. New ways to package food are researched (“what”) because they are showing leadership and ownership (“why”). This would cause an increase in customers, revenue, and profit (“how”).</p>	
(d)	<p>The candidate has suggested that the airline should pass the increased fuel costs onto customers.</p> <ul style="list-style-type: none"> • The positive impact was fully explained – both costs and revenue rise (“what”), because increased fuel costs are offset by higher ticket prices (“why”), leading to maintained profit margins (“how”). • The negative impact is only explained – customers might not be able to afford higher prices (“what”) because they are outside their budget (“why”). • The conclusion does not add to the answer – an Excellence candidate might understand that the impact of raising prices may be negligible when the changes in fuel costs are worldwide, and therefore will impact on all air travellers. <p>The candidate has offered sufficient Merit evidence to be awarded M5.</p>	