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91381



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## Level 3 Business Studies, 2016

### 91381 Apply business knowledge to address a complex problem(s) in a given global business context

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

Achievement	Achievement with Merit	Achievement with Excellence
Apply business knowledge to address a complex problem(s) in a given global business context.	Apply in-depth business knowledge to address a complex problem(s) in a given global business context.	Apply comprehensive business knowledge to address a complex problem(s) in a given global 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 91381R 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.

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

Excellence

TOTAL

23

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## QUESTION ONE: QUALITY MANAGEMENT ISSUES

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Use the information in Resources A and B in the resource booklet, and in the box below, in addition to your business knowledge, to answer this question.

The *Kakapo Cheese Company* (KCC) is a New Zealand-based dairy processing company that has come under increased pressure from other domestic producers over the last few years.

As a result, KCC decided in 2013 to enter the Chinese market with a range of three cheeses. This has involved a massive investment in marketing and establishment of distribution networks. There has been rapid growth in the Chinese market, and KCC has had to employ additional new staff.

In 2016 the head office became aware of a growing number of dissatisfied customers from its Beijing market. Complaints have mostly been about the inconsistent quality of the product and lack of timely delivery. This is a concern for senior management, because profitability has recently become a problem, partly due to the substantial investment required to enter the Chinese market.

- (a) Fully explain the possible cause(s) and effect(s) of the customer dissatisfaction.

In your answer, include:

- factor(s) which may have caused the increase in customer dissatisfaction
- possible effect(s) of the dissatisfaction issue on other stakeholder(s) of the business, such as employees and investors, and consequently on the business.

Factor(s) which may have caused ~~dissatisfaction~~ the increase in customer dissatisfaction ~~include~~ include the inconsistent quality of the cheeses and the lack of timely delivery. These ~~may be~~ issues may be caused by the increased investment in marketing and distribution, which may have led to a decrease in quality control of the cheeses as money is being put elsewhere in the business. Therefore, ~~the~~ customer dissatisfaction is being caused by Kakapo Cheese Company neglecting the quality of their product, which is going to affect their reputation further if they cannot begin to ~~raise~~ raise the quality and get deliveries out on time. Possible effects of the dissatisfaction on employees is that they may receive an increase in their workload to try bring up the quality standard of the cheeses once again. Investors may also be effected.

because customers will be purchasing less cheese due to dissatisfaction, which will lower Kakapo Cheese Company's profit, therefore lowering the return on investment for inventory because Kakapo has become less profitable.

The CEO of KCC has been thinking about possible solutions to the issue of rising dissatisfaction amongst Beijing customers.

(b) Suggest TWO possible solutions to the issue.

- (1) Introduce a quality control, such as total quality management.
- (2) Invest in higher quality holding facilities for the cheese in Beijing, to keep quality consistent.

(c) Evaluate BOTH possible solutions.

In your answer:

- fully explain ONE positive effect that EACH solution would have on the business
- state the solution you recommend
- justify your recommendation by explaining why it is better than the other solution.

A positive effect that introducing total quality management would have on the issue is that it would assist with eliminating any faulty cheese before it is sent off to China. This is positive because it means Kakapo Cheese Company will send out products that they know are 100% high quality because their products have been checked. This will lead to only the highest quality products being sent for distribution to China and therefore, TQM will have a positive effect on Kakapo Cheese Company as it will help them ~~ensure~~ only sell high quality cheese, eliminating customer dissatisfaction. Another positive effect of introducing higher quality

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holding facilities in Beijing is that Kakapo Cheese Company will know that after the cheese has left NZ shores, it is being kept somewhere safe. This is a positive because it will reduce worry about decreases in quality once the cheeses reach China. Investing in higher quality storage facilities will lead to a change in customer feedback as they will find that the cheese is now of a more consistent quality, it may have been effected previously from mechanical breakdowns in NZ but if they ~~they~~ Kakapo upgrade both they will solve their quality issue. Therefore Kakapo investing in holding facilities ~~that~~ will have a positive effect on customer satisfaction as it will keep cheese high quality and keep customers coming back, increasing Kakapo's profit. The solution that I would recommend is to invest in higher quality holding facilities/machinery. This solution is going to have the greatest positive impact for Kakapo Cheese Company as it may eliminate the quality issues of the cheese which were most likely caused by the faulty machinery. Investing in this machinery is going to have a positive impact in the short-term as ~~when~~ once Kakapo install the equipment, the quality of these cheeses will remain consistent, therefore they are going to be able to regain the customers they lost by improving the consistent quality of the cheese. This solution is better than introducing Tam because it ~~will~~ will keep the cheese high quality ~~once it has left the~~ before it leaves the factory and once it reaches China, meaning quality is never altered and the cheeses are kept in the same condition, Tam may not have solved the machinery issues where as this solution does. Overall, the quality of cheese will be consistent and Kakapo Cheese will be able to concentrate on ~~and~~ rebuilding their reputation and once again increasing profit.

## QUESTION TWO: SUPPLY CHAIN ISSUES

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Use the information in Resources C, D, and E in the resource booklet, and in the box below, in addition to your business knowledge, to answer this question.

KCC is facing a major problem with inefficient delivery by the Beijing distribution company to the retailers who are selling KCC's cheese. Deliveries are sometimes late and / or mixed up with other firms' deliveries. Part-deliveries may be left for weeks in the distributor's warehouse before the staff of the distribution firm work out which retailer they were meant to be delivered to. This has been an ongoing issue over the past six months.

- (a) Fully explain the possible cause(s) and effect(s) of the issue that KCC is having with the distributor in Beijing.

In your answer, include:

- factor(s) which may have caused the issues with delivery
- possible effect(s) of the delivery issues on stakeholders of the business, such as customers, competitors, and shareholders.

~~One factor that may have caused issues~~ Factors that may have caused issues with delivery include roads not built for high traffic, and the Beijing distribution company being inefficient with deliveries. These issues have caused large delays with deliveries and may be affecting customer satisfaction also. The effects of these delivery issues on customers are that they may not be able to go out and purchase Kalkapo cheese whenever they want because it may not be in stock due to no products being delivered on time. This will ~~lead~~ lead to customers being annoyed at the inconsistency of availability, and may lead to them purchasing cheese from other companies and not be willing to purchase from Kalkapo ever again. Another effect of the delivery issues on Kalkapo's competitors is that it makes their products look more favourable as they may have more reliable distribution or have key contacts which allow them to opportunities that Kalkapo may not get. Kalkapo's distribution issues will lead to more customers purchasing their products and therefore they will gain a higher market share and higher

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profit if they are able to do what KCC can't and keep customers happy.

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The CEO has two possible solutions to the delivery issue – KCC could either sell direct to its retailers, or could enter into a strategic alliance with a local Beijing distributor.

(b) Evaluate the TWO possible solutions to the delivery problem.

In your answer:

- fully explain ONE positive effect that each solution would have on the business
- state the solution you recommend
- justify your recommendation by explaining why it is better than the other solution.

One positive effect of KCC selling direct to its retailers is that it will be able to cut out some of the costs with distribution. This is because the product would not need to be transported to somewhere like a warehouse, where another site, it can go straight to the retailer. This is positive as it will lead to an increase in delivery efficiency if the products no longer need to visit several locations before finally being sent to a retailer. Therefore, selling direct to retailers will reduce problems with distribution that KCC previously had and increase their chance for sales by selling product direct to retailers, this will in future increase KCC's profit if they establish good retailers to sell through. Another solution would be entering a strategic alliance with a Beijing distributor would have a positive effect on KCC as it will allow their products to be sent through an already proven efficient supply channel. This is a positive as KCC will not have to worry about the distribution of the product if it can be sorted by the Beijing distributor, reducing stress for KCC. This will lead to KCC being able to potentially reach more retailers and consumers if the Beijing distributor has

good connections in China and is able to help out KCC. Therefore this solution will have a positive effect on KCC as their distribution base will be eliminated by using the Beijing distributor, which in future could increase their Chinese market share and earn KCC more profit. The solution that I would recommend is for KCC to enter a strategic alliance with a Beijing distributor. This is because the alliance will have a larger positive impact on the future of KCC, they will be able to enter their product into more retailers across China which will lead to them being able to reach more customers. This solution is better than selling direct to retailers as KCC may not have any connections in Beijing, making it more difficult and time consuming for them to do this on their own. By using the Beijing distributor, they will be able to reduce worry about finding good retailers as ~~the~~ the Beijing distributor will likely already be well established and have many connections that KCC will be able to access, benefiting their sales. In the long-term, KCC's ~~reputation in Beijing~~ may earn a good reputation in Beijing, which may lead to them expanding their sales all across China. This will have a positive impact on KCC as ~~they~~ their market share will increase, allowing them to reach more customers with whom they can earn a positive reputation from, and overall earn KCC more profit from which they can expand and up-scale their operations globally.

### QUESTION THREE: UNEXPECTED GLOBAL RISKS

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Use the information in Resources F, G, H, and I in the resource booklet, and in the box below, in addition to your business knowledge, to answer this question.

KCC sees the Beijing market as an opportunity to grow rapidly. While there had been growth, it had not been as high as expected.

- (a) Fully explain the possible cause(s) and effect(s) of the slow growth in demand for cheese in the Chinese market.

In your answer, include:

- factor(s) which may have caused the slow growth in demand
- possible effect(s) of the slow growth in demand on the business and stakeholder(s) of the business, such as employees, suppliers, and investors.

Factors that may have caused the slow growth in demand for cheese in China is its slow growth rate for GDP and also rumours surrounding whether or not cheese is actually good for you. These factors may be effective, the amount of people in China willing to purchase cheese, which is having an impact on KCC. The possible effects of the slow growth in demand are that businesses like KCC may need to lay off workers. ~~for there is nothing for them to do~~ This is because the slow growth will have meant less sales for KCC than expected, meaning they may not be earning enough profit to keep paying all of their staff. This will lead to less important staff being let go and possibly being replaced with machinery if it is cheaper. Therefore, the slow growth rate will bring job cuts for KCC employees which will help KCC with any financial issues they may encounter, but unfortunately means people lose their jobs and less people will work for KCC in future. Another effect on suppliers is that KCC may purchase less raw materials to meet the lower amount of products they will be producing due to the lower growth rate. This will mean suppliers get less sales from KCC which will lead to less profitability for them in future. Therefore, suppliers of KCC's raw materials will lose out as KCC no longer need as much production.



them, causing the suppliers to face ~~financial~~ potential financial problems if other businesses that they supply also require less materials like KCC.

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(b) Suggest TWO possible solutions to the slow growth in demand in the Chinese market.

(1) ~~One possible~~ KCC market the need for a balanced lifestyle, eating cheese in moderation.

(2) Sell cheese that is lower in fat and sodium, making them more appealing over competitors.

(c) Evaluate the TWO possible solutions to the slow growth in demand in the Chinese market:  
In your answer:

- fully explain ONE positive effect that each solution would have on the business
- state the solution you recommend
- justify your recommendation by explaining why it is better than the other solution.

One positive effect that marketing the need of a balanced lifestyle would have is that Chinese consumers may find this message encouraging. This is a positive effect because more Chinese people may limit their cheese intake, rather than cutting it out completely. This will lead to Chinese people still being willing to purchase cheese, even if it is less than what they were to purchase. Therefore, the marketing on products and in stores will have a positive effect on KCC as it will <sup>help</sup> keep a part of the market alive. Another ~~possible~~ solution that would have a positive effect is if KCC made a cheese product that was lower in fat and sodium. This <sup>will have</sup> a positive effect because Chinese consumers have become more aware of the

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negative effects of cheese, and this will give them a good alternative product to purchase. This will lead to more Chinese people being interested in ~~foreign~~ purchasing the cheese that is lower in sodium and fat because it means they can still enjoy cheese and not feel as guilty about it. Therefore, the introduction of a product by KCC that is lower in sodium and fat ~~will~~ will have a positive effect as Chinese consumers will not cut out cheese from their diets completely and still be willing to purchase cheese from KCC, meaning their profitability may not suffer. The solution that I would recommend is for KCC to make a new cheese that is lower in sodium and in fat. This solution is better than marketing a balanced lifestyle as it is giving consumers an easier alternative to fatty cheese, and it is far more convenient ~~than~~ for them rather than having to alter their entire lifestyle. By KCC selling a cheese product that is lower in sodium and fat, they will be giving themselves an advantage over their competitors who may not sell this sort of product. This is going to lead to Chinese consumers being more willing to purchase this new cheese product from KCC and therefore they will be able to increase sales of KCC products if this product goes successfully. In the long-term, more Chinese may discover the health risks associated with cheese, which is going to give KCC a positive reputation because they have a healthy alternative cheese product. In the future KCC will be able to continue and run potentially expensive their operations if the cheese product goes successfully, allowing them to develop further on their products and allow KCC to earn more profits.

Excellence exemplar for 91381 – 2016		Total score: 23
Q	Grade score	Annotation
1	E7	<p>In part (c), Solution One has only been explained, while Solution Two has been fully explained. The answer also shows understanding of the resource material, i.e. that the cheese is being manufactured in New Zealand and exported to China (not manufactured in China), which many candidates missed.</p> <p>The conclusion compares the alternative courses of action, and justifies with relevant evidence the course of action the business should choose. In their conclusion, the candidate has also introduced the idea that if the business invests in new machinery in New Zealand as well, it would be able to ensure that the cheese is of high quality before it leaves the factory and remains in that state on arrival in China, meaning consistent quality from New Zealand factory to Chinese retail stores.</p>
2	E8	<p>In part (b), both positive effects of both solutions have been fully explained. The candidate has made a statement about the impact, has given the reasoning behind this, and has also looked at the impact of the strategy and how it would address the delivery issues.</p> <p>The conclusion compares the alternative courses of action and justifies with <b>relevant evidence</b> the course of action chosen – new information includes explanation of the negative effect of a direct marketing channel: “KCC may not have any connections in Beijing, making it more difficult and time-consuming for them to do this on their own”. The candidate has also explained the long-term benefits of the strategic alliance and the ability they will have to reach more customers, to gain an improved reputation, increased sales and more profit, “from which they can expand and upscale their operations globally”.</p>
3	E8	<p>In part (c) the positive impacts of both solutions have been fully explained; Solution One is valid, but is weaker than Solution Two. The candidate has made a statement about the impact, has given the reasoning behind this, and has also looked at the impact of the strategy and how it would address the issue of slow growth in demand in the Chinese market.</p> <p>The conclusion compares the alternative courses of action and justifies with <b>relevant evidence</b> the course of action chosen. New information includes the advantage that a new product will give KCC over their competitors. The candidate has also fully explained the long-term benefit of Solution Two: “... more Chinese people may discover the health risk associated with cheese, which is going to give KCC a positive reputation because they have a healthy alternative cheese product. In the future ... expand their operations if this cheese product goes successfully, allowing them to further develop on their products and ...”.</p>