

# DP IB Business Management: HL



## 6.2 Business Management Toolkit Case Studies

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Your notes

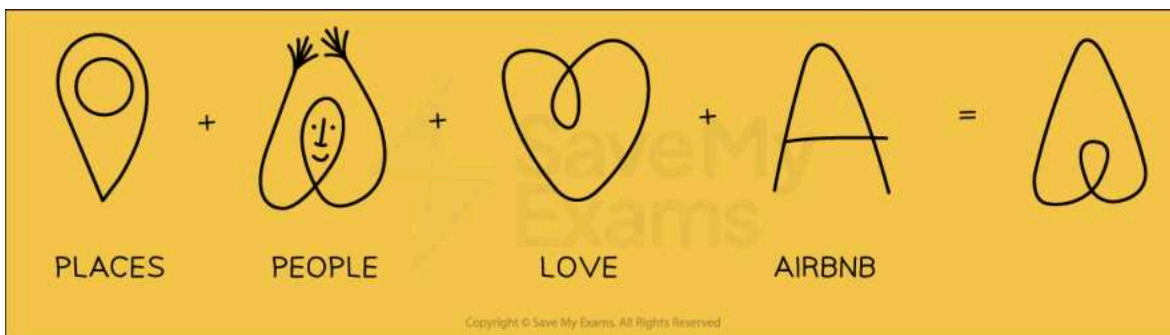
## SWOT & STEEPLE Analysis: AirBnB

### The Purpose of the Business Management Case Study Below

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- You will be assessed on your knowledge of important contemporary business topics through the the analysis of a fictitious or real business. The case study below **provides an example of how to effectively use the business Management Toolkit**

### SWOT & STEEPLE Analysis: Airbnb

*Airbnb* is known as a cheaper, comfier alternative to hotels. It does not own properties itself; people offer to rent their homes, apartments, or rooms to strangers, providing income for the hosts and profits for *Airbnb* which collects a fee for each rental. In 2022 the business generated profit of almost \$2 bn from its operations in 191 countries and 34,000 cities. In recent years the company's worldwide expansion has led to a series of issues, though it has also brought several benefits.





Your notes

*Airbnb* provides jobs to hosts (people who periodically offer their homes to guests). For cities that lack hotels or motels this is a much-valued service. In the USA *Airbnb* benefits states by generating millions in spending and full-time-like jobs, particularly for low- and middle-income groups. In New York, *Airbnb* hosts and associated businesses have generated income of \$1+ billion and created over six thousand jobs. The business claims that its platform blends cultures and societies from different parts of the world, bringing diverse groups of people together.

As the global tourism industry was impacted by the pandemic *Airbnb* experienced a significant lag in growth during 2020 and 2021. Subsequent global economic contraction has continued to affect bookings despite the removal of travel restrictions. In early 2022, in response to hostilities in Ukraine, *Airbnb* suspended all operations in Russia and Ukraine, removed all fees for hosts in Ukraine, which encouraged members of the public began to make bookings in Ukraine with no intention of travelling as a way of providing financial support to residents facing hardship during the invasion and offered free accommodation to Ukrainians forced to flee their homes following the invasion.

*Airbnb* has faced fines and court proceedings in Barcelona, New York, and New Orleans because they've failed to follow local tourism laws. Some hosts don't follow established housing rules and in many cases tourist tax regulations have been ignored. Following media and public backlash, *Airbnb* now requires hosts to agree to terms and conditions agreeing to follow taxation, housing and tourism regulations.

The business takes social responsibility seriously. For example, the "social impact experience" allows non-profit organisations to host and receive 100% of profits.

*Airbnb* relies heavily on technology. Visitors book rooms on a dedicated app, which has over ten million global users, or through the website, which is also where guests leave reviews and seek support. The use of automation means that if a host doesn't respond to a guest's message *Airbnb* will automatically send a text on their behalf. Online webinars provide training and troubleshooting facilities for hosts.

*Airbnb* boasts that its model reduces energy usage within America and Europe compared to hotels. A recent business report highlighted how the company's business concept of the shared home uses existing resources, which is a sustainable practice to keep traveling eco-friendly. The brand also pays attention to waste reduction and saving energy. They want their hosts to ensure the limited resources to decrease the wastage of natural resources and water consumption. The company is keen to lower travel impact too and recently highlighted a key research finding that guests are 10–15 percent more likely to use public transportation, walk or bicycle as their primary mode of transportation than if they had stayed at a hotel.

## Questions

- Define the term *ethical factors*. [2 marks]
- Explain **one** advantage and **one** disadvantage to *Airbnb* of conducting a SWOT Analysis. [4 marks]
- Explain **two** threats that *Airbnb* may identify in a SWOT Analysis. [4 marks]
- Using the STEEPLE analysis framework, evaluate the external environment in which *Airbnb* operates. [10 marks]



Your notes



## Examiner Tips and Tricks

When using any of the elements of the business toolkit, you should consider some of the following factors:

Source of the Data?	Context of the Data?	Purpose of the Data?
<ul style="list-style-type: none"> <li>Internal data may be biased as a result of managers keen to promote their own concerns or ideas</li> <li>External data may originate from unreliable sources</li> </ul>	<ul style="list-style-type: none"> <li>For what reason has it been collected?</li> <li>When, where and with which sampling method has it been collected?</li> </ul>	<ul style="list-style-type: none"> <li>Is there sufficient data to inform decisions?</li> <li>Is the data open to manager interpretation?</li> </ul>

Asking these questions can help you to evaluate the usefulness of the business toolkit in supporting decision making.

## Solutions to the Questions: AirBnB

(a) Define the term ethical factors. [2 marks]

Model Answer	Guidance & Commentary
<p>The term ethical factors refer to the moral principles that govern decisions and actions within a business [1], including environmental and social responsibility, transparency and respect for workers' rights [1].</p>	<ul style="list-style-type: none"> <li>Define questions require you to provide a <b>full</b> definition that demonstrates <b>good knowledge and understanding</b></li> <li><b>Examples</b> are a good way to do demonstrate good knowledge and understanding</li> <li>The model answer is awarded <b>2 marks</b> because provides a clear definition of ethical factors with examples.</li> </ul>



Your notes

(b) Explain **one** advantage and **one** disadvantage to *Airbnb* of conducting a SWOT Analysis. [4 marks]

Indicative content	Guidance
<ul style="list-style-type: none"> <li>▪ Advantages of SWOT analysis include                             <ul style="list-style-type: none"> <li>▪ Logical structure which is easy to understand</li> <li>▪ Encourages focus on strategic issues</li> </ul> </li> <li>▪ Disadvantages of SWOT analysis include                             <ul style="list-style-type: none"> <li>▪ Can quickly become out of date</li> <li>▪ Requires expertise to conduct</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ In this type of explain question you can be awarded <b>one mark for each correct advantage or disadvantage</b> identified</li> <li>▪ A further <b>two marks</b> can be awarded if you <b>apply both the advantage and disadvantage</b> to the business.</li> </ul>
Model Answer 1	Commentary
<p><i>An advantage of conducting a SWOT analysis is that it will help the business to understand its current position and provide information to allow a business to plan for positive or negative changes that might happen in the future [1 mark]. However SWOT analysis is only as good as the information that goes into it which could be affected by bias or poor research methods [1 mark]</i></p>	<ul style="list-style-type: none"> <li>▪ In this example, the candidate has been awarded <b>2 marks</b></li> <li>▪ Whilst <b>one</b> valid advantage and <b>one</b> valid disadvantage have been provided, the response has <b>not been applied</b> to the business</li> </ul>
Model Answer 1	Commentary
<p><i>An advantage of conducting a SWOT analysis is that it will help Airbnb to understand its current position and provide information to allow <b>Airbnb and its network of hosts</b> to plan for positive or negative changes that might affect demand for <b>short-term accommodation</b> in the future [1 mark + 1 mark]. However SWOT analysis is only as good as the information that goes into it which could be affected by <b>biased online customer or host reviews</b> or poor research methods that fail to capture the realities of <b>Airbnb's position as a global business</b> [1 mark + 1 mark]</i></p>	<ul style="list-style-type: none"> <li>▪ In this improved response the candidate is awarded <b>4 marks</b></li> <li>▪ <b>One</b> valid advantage and <b>one</b> valid disadvantage have been provided, and the response has been <b>applied to the business</b></li> </ul>



Your notes

(c) Explain **two** threats that *Airbnb* may identify in a SWOT Analysis. [4 marks]

Indicative content	Guidance
<ul style="list-style-type: none"> <li>▪ Threats to Airbnb include                             <ul style="list-style-type: none"> <li>▪ Conflict in Ukraine</li> <li>▪ Regulations related to housing, taxation and tourism</li> <li>▪ New competition entering key markets</li> <li>▪ Worsening global economic conditions</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ In this type of explain question you can be awarded <b>one mark for each correct threat</b> identified</li> <li>▪ A further <b>two marks</b> can be awarded if you <b>apply both threats</b> to the business.</li> </ul>
Model Answer 1	Commentary
<p><i>The ongoing conflict in Ukraine presents a significant threat to Airbnb as demand for <b>short-term rentals</b> in a part of the world affected by war is likely to be very low, reducing <b>Airbnb's fees from hosts</b> in the zone.</i></p> <p><i>As well as this, Airbnb may face threats from changing housing and taxation regulations which will require it to update its <b>host terms and conditions</b> on a regular basis.</i></p>	<ul style="list-style-type: none"> <li>▪ This response has been awarded <b>4 marks</b></li> <li>▪ The candidate has identified two valid threats that have both <b>been applied</b> to the business</li> </ul>

(d) Using the STEEPLE analysis framework, evaluate the external environment in which Airbnb operates. [10 marks]

Indicative content	Guidance
<ul style="list-style-type: none"> <li>▪ <b>Social</b> factors include                             <ul style="list-style-type: none"> <li>▪ Increased interest in 'off the beaten track' tourism</li> <li>▪ Like-minded customers attracted to Airbnb's social responsibility model</li> </ul> </li> <li>▪ <b>Technological</b> factors include                             <ul style="list-style-type: none"> <li>▪ Widely-used app and automation used to meet customer and host needs</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ This is a 'Level of response' answer where the examiner judges how well you have displayed the key skills of <b>knowledge, application, analysis</b> and <b>judgement</b></li> <li>▪ Your answer will need to show the following <b>elements</b> in order to gain top marks:</li> </ul>



Your notes

<ul style="list-style-type: none"> <li>▪ <b>Economic</b> factors include           <ul style="list-style-type: none"> <li>▪ Global economic contraction affecting disposal income available for travel and tourism</li> </ul> </li> <li>▪ <b>Environmental</b> factors include           <ul style="list-style-type: none"> <li>▪ Lower carbon footprint compared to hotels</li> <li>▪ Efforts to reduce waste and save energy</li> <li>▪ Guests are more likely to use public transport</li> </ul> </li> <li>▪ <b>Political</b> factors include           <ul style="list-style-type: none"> <li>▪ Russia-Ukraine conflict has affected bookings in the region</li> <li>▪ States' restrictive housing, tourism and taxation policies</li> </ul> </li> <li>▪ <b>Legal</b> factors include           <ul style="list-style-type: none"> <li>▪ Fines and court proceedings in several cities relating to housing, tourism and taxation breaches</li> </ul> </li> <li>▪ <b>Ethical</b> factors include           <ul style="list-style-type: none"> <li>▪ Social impact experience supports non-profit organisations</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Appropriate <b>business terms</b> are used throughout</li> <li>▪ STEEPLE analysis is <b>explained clearly</b> and applied purposefully</li> <li>▪ The <b>case study material</b> is used in a way that significantly strengthens the response</li> <li>▪ Chains of <b>balanced analysis</b> are evident throughout the response</li> <li>▪ <b>Judgments</b> are relevant and well <b>substantiated</b></li> </ul>
Model Answer extract	Commentary
<p><i>In terms of legal factors, Airbnb has faced fines and court proceedings in several cities around the world for breaches of regulations related to housing, tourism and taxation, attracting lots of negative attention and therefore affecting the Airbnb brand. However, in response Airbnb now requires its hosts to commit to a set of terms and conditions that help to prevent further legal problems, negative media coverage and public backlash. This will help Airbnb to protect its reputation and support its social responsibility aims, allowing its hosts to continue to attract like-minded guests.</i></p>	<ul style="list-style-type: none"> <li>▪ In this extract, the candidate has correctly used the STEEPLE analysis model</li> <li>▪ They have used the case study material effectively to support both 'sides' of their analysis</li> <li>▪ The chains of analysis are balanced, considering both positive and negative elements</li> </ul>



Your notes

## BCG Matrix & Decision Trees: Starbucks

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### BCG Matrix & Decision Trees: Starbucks

Starbucks Corporation is an American multinational chain of coffeehouses with its headquarters in Seattle. It is the largest chain of coffeehouses in the world, with more than 34,000 stores in 80 countries, including almost 16,000 in the United States and over 2,500 in Europe.

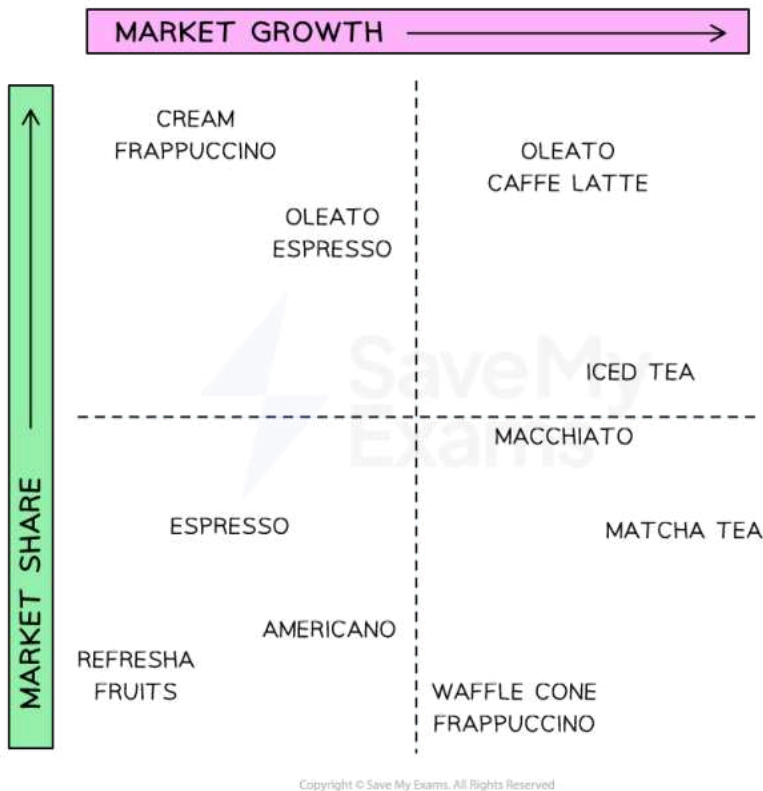
Starbucks offers hot and cold beverages including whole bean and micro-ground instant coffees, teas with and without leaves, juices, frappuccino drinks, pastries and snacks. Some offerings are seasonal or specific to the store location.

Despite widespread scepticism, the first Starbucks opened in Italy in 2018 and 25 stores now operate in the country, selling its best-selling portfolio of products as well as a popular Oleato range of olive oil coffee drinks, amongst many other Italian specialities. Some senior Starbucks Europe managers have suggested that the business should focus on strengthening its product range in Italy - a strategy that was undoubtedly a key feature of Starbucks' rapid growth in the UK - by investing \$4 million later this year in above the line promotional activity to increase sales of a selection of drinks brands.





Your notes

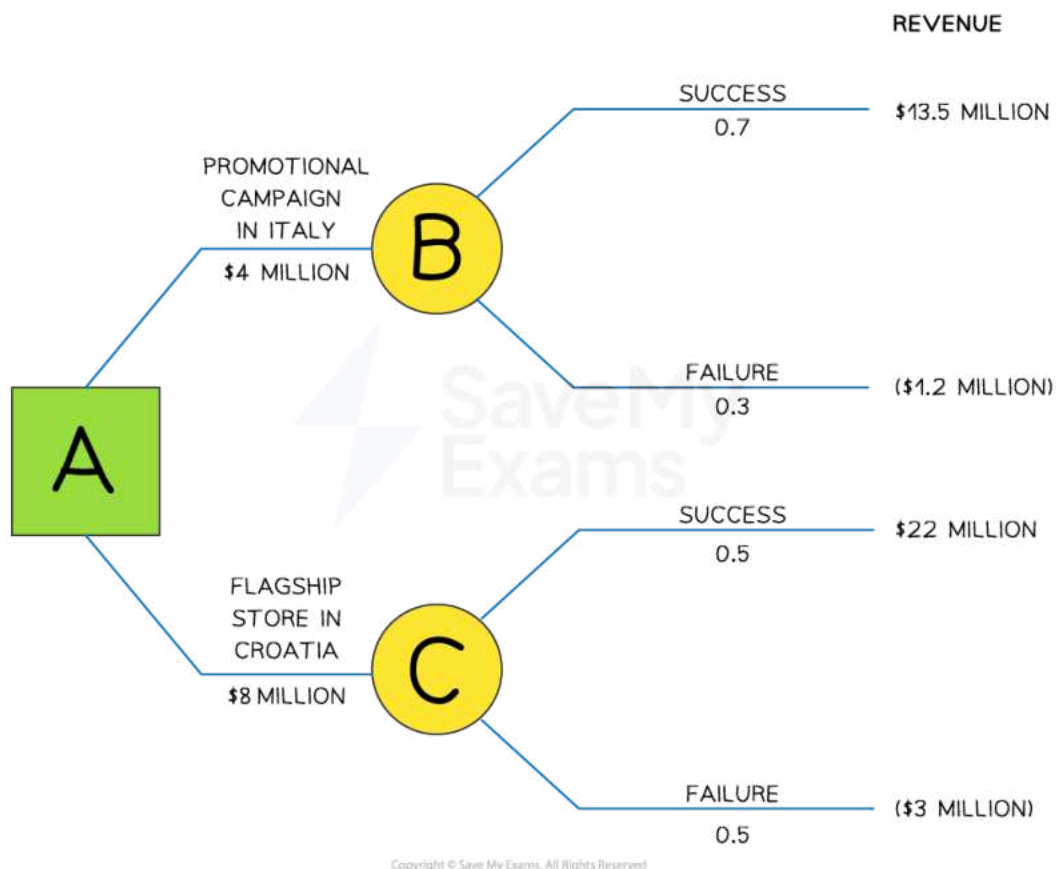


**Starbucks Italy's drinks portfolio illustrated in the BCG Matrix**

Alternatively, following its success in Italy, leaders at Starbucks' US headquarters are looking to expand the brand to one of the few remaining European countries where it does not presently operate, with coffee-culture Croatia at the top of its list. They are keen to open a flagship city-centre store in Dubrovnik in time for the next summer season at a cost of \$8 million. Extensive market research over a number of years has revealed some significant issues with this idea:

- Starbucks menu items and cafe layouts are designed for high traffic and rapid customer turnover whilst, for Croatians who love to linger, enjoying coffee with friends is something over which time is taken
- Cafes already exist all over the country including much loved chains such as Quahwa, D16 Coffee and Cogito Coffee, each of which enjoy strong customer loyalty
- On average, a medium-sized cup of coffee in Croatia costs less than one Euro, half the price Starbucks typically charges in other European countries

In order to help senior managers decide which strategy to pursue in Europe a decision tree diagram has been devised.



A decision tree diagram detailing Starbucks Europe's two strategic choices

### Questions

- (a) Define the term *product portfolio*. [2 marks]
- (b) Explain **one** advantage and **one** disadvantage to Starbucks of using decision trees in determining business strategy. [4 marks]
- (c) Use the decision tree diagram to calculate the expected values of
- (i) the promotional campaign in Italy
  - (ii) the opening of a flagship store in Croatia [4 marks]



Your notes

(d) Using the BCG Matrix of Starbucks' drinks portfolio in Italy, as well as further information from the case study, recommend the products that Starbucks should select as its focus for increased promotional spending. [10 marks]



### Examiner Tips and Tricks

Remember, a group of business decision-makers may look at the same data and make different judgements. When you make use of the business toolkit, try to avoid assumptions because they can confuse the end users of the analysis and encourage (or discourage) a particular view.

In general, analysis doesn't belong **within** the tools - it is what managers do afterwards, when presented with data in these powerful forms.

## Solutions to the Questions: Starbucks

(a) Define the term *product portfolio*. [2 marks]

Model Answer	Guidance & Commentary
<i>A businesses product portfolio is its complete range [1] of goods and services currently available for customers to purchase [1].</i>	<ul style="list-style-type: none"> <li>Define questions require you to provide a <b>full</b> definition that demonstrates <b>good knowledge and understanding</b></li> <li>The model answer is awarded <b>2 marks</b> because it is precise and uses related business terminology correctly</li> </ul>

(b) Explain **one** advantage and **one** disadvantage to Starbucks of using decision trees in determining business strategy. [4 marks]

Indicative content	Guidance
<ul style="list-style-type: none"> <li>Advantages of decision trees include                             <ul style="list-style-type: none"> <li>Decision trees may reveal options that haven't previously been considered</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>In this type of explain question you can be awarded <b>one mark for each correct advantage or disadvantage</b> identified</li> <li>A further <b>two marks</b> can be awarded if you <b>apply both the advantage and disadvantage</b> to</li> </ul>



Your notes

- |  |   |
|--|---|
| <ul style="list-style-type: none"><li>Managers have to consider risks associated with their choice ahead of implementation</li><li>Disadvantages of decision trees include<ul style="list-style-type: none"><li>Constructed using estimates which rarely include all possible eventualities</li><li>Qualitative elements such as human resource impacts are not considered</li></ul></li></ul> | <ul style="list-style-type: none"><li>the business</li><li>You should ensure that your response refers to determining business strategy</li></ul> |
|--|---|

**Model Answer**

*An advantage of using decision trees to determine business strategy is that it allows two choices, such as Starbucks' proposal to spend \$4 million on promotional activity or \$8 million opening a flagship store in Croatia to be compared, even though they require very different levels of investment [1 mark + 1 mark].*

*However it takes a lot of time to construct and accurately interpret decision tree diagrams as it requires significant amounts of research to ensure it is as reliable as possible and, as Starbucks wants to embark on both of the two options very soon, there is little time to carry out this research which may mean that the decision tree is misleading and an inappropriate strategic decision is made. [1 mark + 1 mark].*

(c) Use the decision tree diagram to calculate the expected values of

(i) the promotional campaign in Italy

**Step 1: Multiply the expected value of success of the promotional campaign by the probability**

$$\$13.5\text{m} \times 0.7 = \$9.45\text{m}$$

**Step 2: Multiply the expected value of failure of the promotional campaign by the probability**

$$\$1.2\text{m} \times 0.3 = \$0.36\text{m}$$

**Step 3: Add these two values**

$$\$9.45\text{m} + \$0.36\text{m} = \$9.81\text{m}$$

**Step 4: Deduct the cost of the promotional campaign to identify the expected value**

$$\$9.81\text{m} - \$4\text{m} = \$5.81\text{m}$$



Your notes

The expected value of the promotional campaign in Italy is \$5.81m

(ii) the opening of a flagship store in Croatia

**Step 5: Multiply the expected value of success of the flagship store by the probability**

$$\$ 22.0\text{m} \times 0.5 = \$ 11.0\text{m}$$

**Step 6: Multiply the expected value of failure of the flagship store by the probability**

$$\$ 3.0\text{m} \times 0.5 = \$ 1.5\text{m}$$

**Step 7: Add these two values**

$$\$ 11.0\text{m} + \$ 1.5\text{m} = \$ 12.5\text{m}$$

**Step 8: Deduct the cost of the flagship store to identify the expected value**

$$\$ 12.5\text{m} - \$ 8\text{m} = \$ 4.5\text{m}$$

The expected value of the flagship store in Croatia is \$4.5m

[4 marks]

(d) Using the BCG Matrix of Starbucks' drinks portfolio in Italy, as well as further information in the case study, recommend the products that Starbucks should select as its focus for increased promotional spending. [10 marks]

**Exemplar structure**

Part	Knowledge & Application	Balanced Analysis	Judgement
<b>Introduction</b>	<ul style="list-style-type: none"> <li>Define BCG matrix and its elements</li> <li>Identify suitable 'star', 'question mark' or 'dog' products</li> </ul>		
<b>Recommendation 1</b>	<ul style="list-style-type: none"> <li>Suggest a suitable product</li> </ul>	<ul style="list-style-type: none"> <li>Provide a developed advantage and disadvantage</li> </ul>	



Your notes

	<ul style="list-style-type: none"> <li>Describe its position in the Boston Matrix</li> </ul>	<ul style="list-style-type: none"> <li>Make use of evidence from the case study in your chains of analysis</li> </ul>	
<b>Recommendation 2</b>	<ul style="list-style-type: none"> <li>Suggest a second suitable product</li> <li>Describe its position in the Boston Matrix</li> <li>Compare its position to the first recommendation</li> </ul>	<ul style="list-style-type: none"> <li>Provide a developed and advantage and a developed disadvantage</li> <li>Make use of different evidence from the case study within chains of analysis</li> </ul>	<ul style="list-style-type: none"> <li>Consider why this recommendation may be better (or worse) than the first</li> </ul>
<b>Recommendation 3</b>	<ul style="list-style-type: none"> <li>Suggest a third product recommendation from a separate matrix quadrant</li> <li>Describe its position in the Boston Matrix</li> <li>Compare its position to the first and second recommendations</li> </ul>	<ul style="list-style-type: none"> <li>Provide a developed and advantage and a developed disadvantage</li> <li>Make use of different evidence from the case study within chains of analysis</li> <li>Consider the validity of evidence</li> </ul>	<ul style="list-style-type: none"> <li>Consider why this recommendation may be better (or worse) than other recommendations</li> <li>Weigh up aspects such as risk and cost</li> </ul>
<b>Conclusion</b>	<ul style="list-style-type: none"> <li>Identify other tools that may aid decision-making in this instance</li> </ul>	<ul style="list-style-type: none"> <li>Develop chains of applied reasoning to support your choice(s)</li> <li>Provide a further chain of reasoning to justify rejected option(s)</li> </ul>	<ul style="list-style-type: none"> <li>Make a clear decision, using the case study</li> <li>Consider the other factors that may impact the final decision managers may make</li> </ul>

## Business Plans & Descriptive Statistics: Sunset Sails Tours



Your notes

### The Purpose of the Business Management Case Study Below

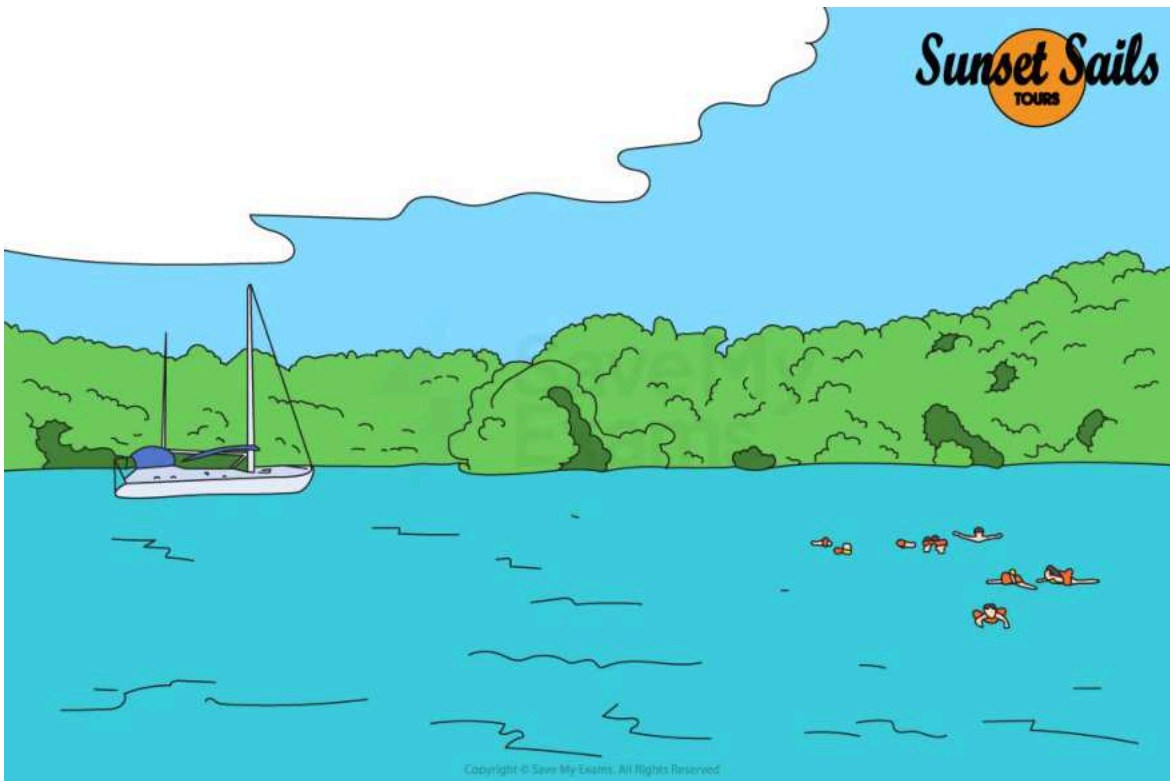
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### Business Plans & Descriptive Statistics: Sunset Sails Tours

*Sunset Sails Tours* was established in 2005 as the first catamaran excursion business to operate in the beautiful harbour town of Manuel Antonio, Costa Rica. Its mission is to provide the best tourist catamaran boat cruise service in the coastal Quepos region.



Your notes



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***Sunset Sails Tours Ltd provides small-scale sailing tours in the Quepos region on its two sailing boats Lorelei and Camaradien***

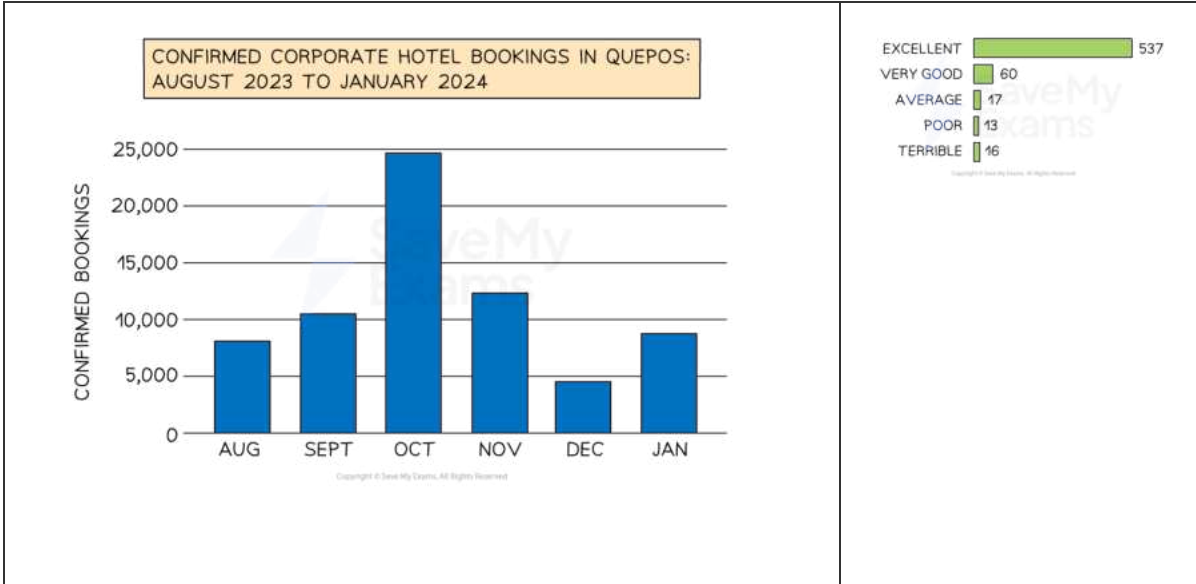
*Sunset Sails Tours* offers daily small-scale sailing tours which include refreshments and snorkeling equipment for adults and children. Tours provide opportunities for dolphin, turtle and whale spotting. With its focus on providing excellent customer service, the business receives outstanding reviews from satisfied holiday makers.

Keen to expand the business, the owners of *Sunset Sails Tours* have carried out limited primary and secondary market research to identify suitable growth strategies. Some of the results are shown below.





Your notes



**Fig. 1: Confirmed Corporate Hotel Bookings in Quepos: August 2023 to January 2024**

**Fig. 2: Sunset Sails Tours: Trip Advisor Ratings – July 2023**

Trimaran model	Costs (\$)	Capacity (Passengers)
FL479X	430,000	14
SunSailor T	390,000	12
DMAX 800	520,000	14
Bateux Sol Ranger V	450,000	10

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**Fig. 3: Purchase prices of nearly-new trimaran models – June 2023**

They have decided to pursue a strategy of market development by offering larger scale catamaran tours to corporate groups, which they intend to launch in time for the International Conference on Environmental Pollution and Prevention in October 2023. This will involve the purchase of a larger trimaran sailing boat for

which external finance will be required and the owners have drawn up a business plan before approaching the local bank.



Your notes

## Questions

- (a) Define the term 'primary market research'? [2 marks]
- (b) Using the market research data:
- (i) Calculate the mean Trip Advisor rating received by *Sunset Sails Tours* up to July 2023 to one decimal place. [2 marks]
- (ii) Calculate the median price of nearly-new available trimarans. [2 marks]
- (c) Explain **one** advantage **and one** disadvantage to *Sunset Sails Tours* of calculating the standard deviation of confirmed corporate hotel bookings. [4 marks]
- (d) Discuss the implications for *Sunset Sails Tours Ltd* of producing a business plan. [10 marks]

## Solutions to the Questions: Sunset Sails Tours

- (a) Define the term 'primary market research'? [2 marks]

Model Answer	Guidance & Commentary
<p><i>Primary market research is the collection of original, first-hand data [1] using tools such as surveys, focus groups or observation [1].</i></p>	<ul style="list-style-type: none"> <li>▪ Define questions require you to provide a <b>full</b> definition that demonstrates <b>good knowledge and understanding</b></li> <li>▪ <b>Examples</b> are a good way to do demonstrate good knowledge and understanding</li> <li>▪ The model answer is awarded <b>2 marks</b> because provides a clear definition of primary market research with examples</li> </ul>

- (b) Using the market research data:



Your notes

(i) Calculate the mean Trip Advisor rating received by *Sunset Sails Tours* up to July 2023 to one decimal place. [2 marks]

**Step 1: Calculate the total volume of reviews**

$$537 + 60 + 17 + 13 + 16 = 643$$

**Step 2: Calculate the total of all review ratings**

$$5 \times 537 = 2,685$$

$$4 \times 60 = 240$$

$$3 \times 17 = 51$$

$$2 \times 13 = 26$$

$$1 \times 16 = 16$$

$$2685 + 240 + 51 + 26 + 16 = 3,018$$

**Step 3: Divide the total of all review ratings by the volume of reviews**

$$3,018 \div 643 = 4.69$$

**Step 4: Round the outcome to one decimal place**

$$4.69 = 4.7$$

(ii) Calculate the median price of nearly-new available trimarans. [2 marks]

**Step 1: Place the trimarans in order, from smallest to greatest price**

Sunsailor T	FL 479X	Bateux Sol Ranger V	DMAX 800
\$390,000	\$430,000	\$450,000	\$520,000

**Step 2: Identify the two mid-price trimarans**

FL 479X	Bateux Sol Ranger V
\$430,000	\$450,000



Your notes

**Step 3: Calculate the half-point value between these two trimarans**

$$(\$ 450,000 + \$ 430,000) \div 2 = \$ 440,000$$

(c) Explain **one** advantage **and one** disadvantage to *Sunset Sails Tours* of calculating the standard deviation of confirmed corporate hotel bookings. [4 marks]

Indicative content	Guidance
<ul style="list-style-type: none"> <li>▪ Advantages of calculating standard deviation include                             <ul style="list-style-type: none"> <li>▪ It gives an accurate idea of how the data is distributed</li> <li>▪ It is less affected by data fluctuations than other statistical methods</li> </ul> </li> <li>▪ Disadvantages of calculating standard deviation include                             <ul style="list-style-type: none"> <li>▪ It is more complex to calculate than other statistical methods</li> <li>▪ Standard deviation gives more weight to outlying data</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ In this type of explain question you can be awarded <b>one mark for each correct advantage or disadvantage</b> identified</li> <li>▪ A further <b>two marks</b> can be awarded if you <b>apply both the advantage and disadvantage</b> to the business.</li> </ul>
Model answer 1	Commentary
<p><i>An advantage of using standard deviation is that it is a reliable and widely-used statistical tool that takes into account all of the relevant data [1 mark]. However standard deviation is complex to calculate and may need an expert to interpret correctly [1 mark].</i></p>	<ul style="list-style-type: none"> <li>▪ In this example, the candidate has been awarded <b>2 marks</b></li> <li>▪ Whilst <b>one</b> valid advantage and <b>one</b> valid disadvantage have been provided, the response has <b>not been applied</b> to the business</li> </ul>
Model answer 2	Commentary
<p><i>An advantage of using standard deviation of confirmed hotel bookings is that it is a reliable and widely-used statistical tool that takes into account all of the relevant data over the five months of hotel bookings in which Sunset Sails Tours is interested [1 mark + 1 mark]. However standard deviation is complex to calculate and may</i></p>	<ul style="list-style-type: none"> <li>▪ In this improved response the candidate is awarded <b>4 marks</b></li> <li>▪ <b>One</b> valid advantage and <b>one</b> valid disadvantage</li> </ul>

need an expert to interpret correctly which, as a small local business, Sunset Sails Tours is unlikely to employ [1 mark + 1 mark].

have been provided, and the response has been **applied to the business**



Your notes

(d) Discuss the implications for *Sunset Sails Tours Ltd* of producing a business plan. [10 marks]

Indicative content	Guidance
<ul style="list-style-type: none"> <li>▪ <b>Implications of producing a business plan include:</b> <ul style="list-style-type: none"> <li>▪ Detailed research related to a new market segment is required → initial research already compiled is unlikely to be sufficient</li> <li>▪ Effective business plans require time and expertise to construct → does this small, local business have this expertise or time to produce such a plan?</li> <li>▪ The business has a clear mission and growth objective → this is likely to help in developing a focused business plan</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ This is a 'Level of response' answer where the examiner judges how well you have displayed the key skills of <b>knowledge, application, analysis and judgement</b></li> <li>▪ In particular your answer will need to show the following <b>elements</b> in order to gain top marks: <ul style="list-style-type: none"> <li>▪ Appropriate <b>business terms</b> are used throughout</li> <li>▪ Business plans are <b>explained clearly</b> and knowledge applied purposefully</li> <li>▪ The <b>case study material</b> is used in a way that significantly strengthens the response</li> <li>▪ Chains of <b>balanced analysis</b> are evident throughout the response</li> <li>▪ <b>Judgments</b> are relevant and well <b>substantiated</b></li> </ul> </li> </ul>
Model answer extract	Commentary
<p><i>Overall, producing a detailed and thorough business plan would be likely to play an important role in persuading the bank to finance the purchase of a new trimaran. The lender will be able to analyse the financial performance of the</i></p>	<ul style="list-style-type: none"> <li>▪ In this judgement extract, the candidate demonstrates clear knowledge and understanding of the business plan</li> </ul>

*business as well as the research it has conducted to determine whether it is in a position to pay back upwards of \$350,000 and whether the idea has commercial merit. It is likely, though, that other factors such as Sunset Sails Tours' past credit history as well as how convincing their case is presented by the business owners will influence the bank's decision and the business plan should be seen as just one, albeit influential, part of the finance application.*

- They have used the case study material effectively to support the judgement
- Judgement is balanced and reasoned, considering 'both sides' of the point and considering wider factors



Your notes