Cambridge International AS & A Level

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BUSINESS STUDIES **9707/31**

Paper 3 **October/November 2015**

CASE STUDY

3 hours

Additional Materials: Answer Booklet/Paper

2480423661

READ THESE INSTRUCTIONS FIRST

If you have been given an Answer Booklet, follow the instructions on the front cover of the Booklet.
Write your Centre number, candidate number and name on all the work you hand in.
Write in dark blue or black pen.
You may use an HB pencil for any diagrams, graphs or rough working.
Do not use staples, paper clips, glue or correction fluid.
DO **NOT** WRITE IN ANY BARCODES.

Section A
Answer **all** questions.
Section B
Answer **one** question.
You are advised to spend 40 minutes on Section B.
The businesses described in this question paper are entirely fictitious.

At the end of the examination, fasten all your work securely together.
The number of marks is given in brackets [ ] at the end of each question or part question.

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BAS

A national airline

BAS is the national airline of country A. In 2010 the newly elected Government identified BAS as a target for privatisation. In preparation for privatisation the Government appointed a new Chief Executive Officer (CEO), Jengo Robinson. He has experience of managing major global airlines. He immediately began a detailed analysis of the problems facing BAS. Among the problems identified were:

- most of the aircraft were old and needed replacing
- no clear corporate aims
- unprofitable long distance routes
- a bureaucratic organisational structure
- a culture of inefficiency
- poor cost control.

In 2010, the airline was on the verge of collapse having reported annual losses of $500m. Jengo established a medium term corporate plan for BAS. This included returning the business to profitability within two years and a longer term goal of becoming the third largest airline in the Africa region. Jengo focused on establishing BAS as a premium airline, removing unprofitable routes and delayering the organisational structure.

Jengo communicated these changes to key stakeholders through holding meetings with trade unions and publishing his corporate plan. There was opposition from workers and middle management to some of the proposals but the poor financial state of the business helped persuade stakeholders to support the changes. Within two years the business returned to profitability and was privatised in 2012.

Greater focus on regional flying

BAS continued to reduce its reliance on long distance routes after privatisation. There is strong growth in the regional market driven by the area's rapidly growing economies and rising incomes. However, the strategy of focusing on regional, short distance routes also created challenges as other airlines have already followed a similar strategy. Thus, competition on key routes is intense and low cost airlines have expanded rapidly. Currently BAS treats all routes as profit centres and the company constantly reviews profitability. Although BAS has reduced costs they remain higher than low cost airlines. In order to be competitive, BAS has had to focus on aggressive marketing, better capacity management and increasing productivity.

The Operations Director has become increasingly concerned about the losses being made on Route 270 between city X and city Y. The performance of BAS on this route has been negatively affected by AlAir, a new low cost airline entering into direct competition. AlAir has been operating for a year and has cut prices to gain customers. Details of this route are included in Table 1.

Initiatives to reduce costs

In 2013 the preparation of in-flight meals was outsourced to a private contractor. This led to a reduction in costs and an increase in customer satisfaction. BAS is currently considering how to further reduce costs. At the most recent Board meeting Chris, the Operations Director, proposed a plan to outsource the maintenance of aircraft to contractors in other countries. Chris commented: 'a common trend by airlines has been to outsource thousands of high skilled jobs to aircraft maintenance repair companies overseas that are not tightly regulated'. Jengo expressed the view that safety was a priority and must not be put at risk. Chris commented that aircraft maintenance costs were approximately 10% of operating costs at BAS and that outsourcing this work would reduce operating costs by 1%.

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Table 1: Data used by BAS management when considering the future of Route 270 between city X and city Y

Index of average AlAir single ticket price in 2015 (BAS = 100)		80
Number of BAS flights per year on Route 270		700
Average capacity utilisation on Route 270	2014	85%
	2015	70%
Revenue per flight on Route 270 (2015)		$12 300 (average)
Variable costs per flight on Route 270 (2015)		$8000 (average)
Allocation of BAS fixed costs per flight on Route 270 (2015)		$5300
Forecast economic growth in region in which city Y is located	2016	10%
	2017	8%
Forecast aviation fuel price (2015 = 100)	2016	95
	2017	97

Reforming human resources

As part of the strategy to increase competitiveness BAS has been considering a number of changes that will affect cabin crew (employees who look after customers in the aircraft). The proposed changes are:

- a change to fringe benefits including the loss of free flights for family members
- the introduction of flexible working contracts for all new cabin crew
- a reduction in the contribution made by BAS to the company pension scheme
- a reduction in cabin crew numbers on long distance routes.

The first the employees knew of these proposed changes was when they read about them in newspapers. There were serious arguments between union representatives and the HR Director.

The BAS workforce is heavily unionised with over 60% belonging to unions. The unions have threatened strike action if management is not willing to negotiate about these changes. A strike has been proposed that would disrupt flights in the holiday season in December.

Corporate social responsibility

When Jengo was appointed CEO the airline industry was coming under increasing pressure to reduce carbon emissions and noise pollution. Initially Jengo was not concerned about corporate social responsibility. However pressure group activity became intense and demands were made to the Government to impose a tax on aircraft fuel. So after privatisation, and with profits increasing, Jengo reluctantly decided that BAS should conduct a comprehensive review into its activities. The replacement of its older aircraft in 2013 with new aircraft had a significant impact on reducing carbon emissions. Recently the company has started to use biofuels to meet some of its energy needs. Now, in 2015, the company is about to publish its third ‘Corporate Social Responsibility Report’.

Sales forecasts

Forecasting ticket sales for BAS is difficult. The business environment is highly dynamic and economic changes can impact on the travel decisions of both business and leisure passengers. BAS considers a range of data when making sales forecasts. As part of the forecasting process BAS uses the moving average method. BAS has seen an upward trend in sales since 2011 and this data is shown in the Appendix. *90*

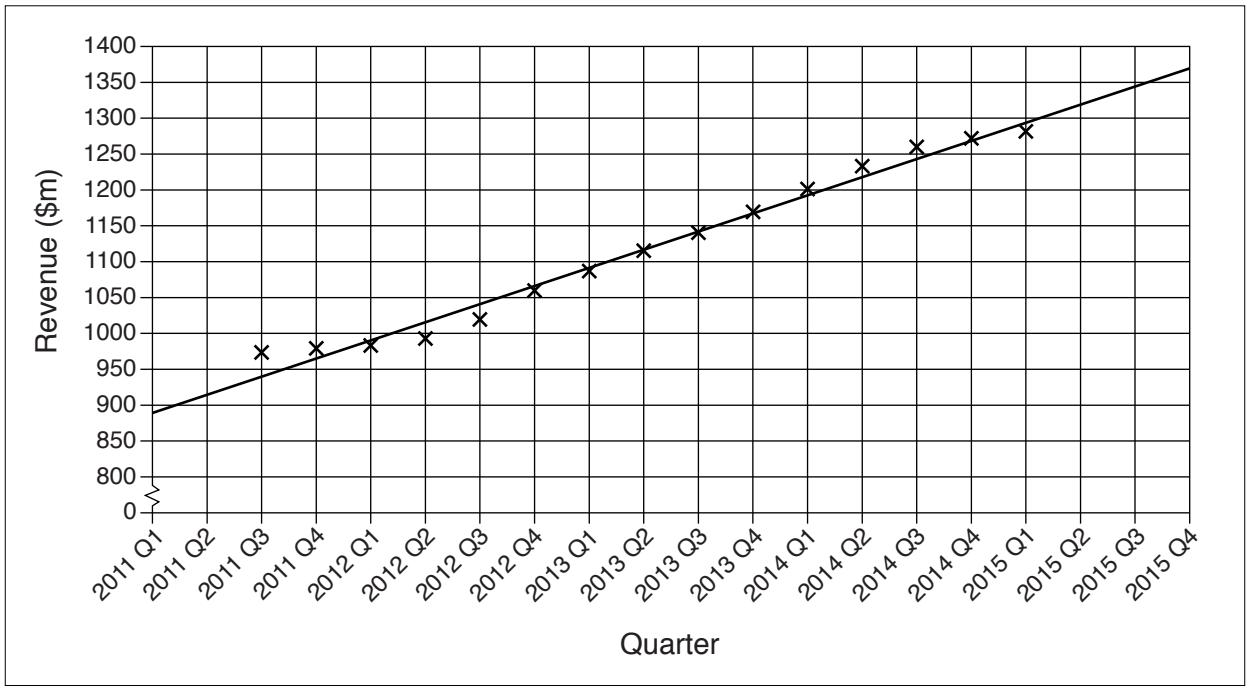
Appendix

Sales revenue data for BAS

Year	Quarter	Revenue $m	4-period moving average	Moving average trend	Seasonal Variation
2011	1	860			
	2	900	972.5		
	3	980	975	973.75	6.25
	4	1150	982.5	978.75	171.25
2012	1	870	985	983.75	–113.75
	2	930	995	990	–60
	3	990	1040	1017.5	–27.5
	4	1190	1077.5	1058.75	131.25
2013	1	1050	1100	1088.75	–38.75
	2	1080	1127.5	1113.75	–33.75
	3	1080	1157.5	1142.5	–62.5
	4	1300	1182.5	1170	130
2014	1	1170	1222.5	1202.5	–32.5
	2	1180	1247.5	1235	–55
	3	1240	1265	1256.25	–16.25
	4	1400	1282.5	1273.75	126.25
2015	1	1240	**X**	**Y**	–47.5
	2	1250			
	3	1280			
	4				

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Graph of moving average trend and line of best fit



Section A

Answer **all** questions in this section.

1 Analyse the benefits of corporate social responsibility (CSR) to BAS. [10]

2 **(a)** Refer to Table 1. Calculate the contribution per flight of Route 270. [2]

(b) Recommend whether BAS should stop operating Route 270. Justify your answer using your results from **2(a)** and any other relevant information. [16]

3 Discuss whether BAS should outsource maintenance of aircraft to contractors in other countries. [16]

4 **(a)** Refer to the Appendix. Calculate:

(i) **X** [2]

(ii) **Y**. [2]

(b) Refer to the table **and** the graph in the Appendix. Calculate the forecast revenue for 2015 Q4. Show your calculations. [4]

(c) Evaluate the usefulness of sales forecasting methods, such as moving averages, for marketing decisions taken by BAS. [12]

5 Discuss how BAS should respond to the threat of industrial action over proposed reforms to human resources (lines 67–70). [16]

Section B

Answer **one** question in this section.

6 Evaluate the importance of changes in its corporate culture to the success of BAS in recent years. [20]

7 Evaluate the usefulness of long-term planning and corporate objectives to BAS which operates in a constantly changing business environment. [20]

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