Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

BUSINESS **9609/22**

Paper 2 Data Response **February/March 2016**

1 hour 30 minutes

No Additional Materials are required.

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READ THESE INSTRUCTIONS FIRST

An answer booklet is provided inside this question paper. You should follow the instructions on the front cover of the answer booklet. If you need additional answer paper ask the invigilator for a continuation booklet.

Answer **all** questions.
The businesses described in this paper are entirely fictitious.

The number of marks is given in brackets [ ] at the end of each question or part question.

This document consists of **3** printed pages, **1** blank page and **1** Insert.

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CAMBRIDGE International Examinations

1 Lovell's Jewellery (LJ)

Sara Lovell is a jewellery maker who designs, produces and sells her own range of jewellery. Sara is a sole trader and she set up LJ two years ago after she left university. The start up capital for LJ was mainly borrowed from Sara's parents and she has managed to pay them back all the money that she borrowed. LJ is operated from a small shop, that Sara rents, near the main street of a busy town. Sara employs two sales assistants who work in the shop. She uses the store room at the back of the shop to design and produce the jewellery.

The business made a profit for the first time in 2015 (see Table 1).

Table 1

	2014 ($)	2015 ($)
Revenue	40 000	60 000
Cost of sales	25 000	30 000
Gross profit	15 000	30 000
Expenses	20 000	20 000
Profit for the year	(5000)	10 000

LJ's growth has resulted in economies of scale. Sara would like to expand the business further. She would like to open a new shop in the next town. Her research has narrowed down the choice to two locations (see Table 2).

Table 2

Location A	Location B
• On a busy main street • High rent • Many other jewellery shops nearby • No parking nearby • Small shop window • Large amount of storage space	• On a quiet street • Low rent • No other jewellery shops nearby • Near high income residents • Large shop window • Limited storage space

Whichever property Sara chooses will require some extra finance. There will not be enough retained profit in the business to finance the opening of the new shop. Sara does not want to ask her parents for another loan, so she has decided to explore other sources of finance.

(a) (i) Define the term 'sole trader' (line 2). [2]

(ii) Briefly explain the term 'start up capital' (lines 2–3). [3]

(b) (i) Refer to Table 1. Calculate the profit margin for 2015. [2]

(ii) Explain how LJ might have benefited from **one** economy of scale. [4]

(c) Analyse **two** appropriate sources of finance that Sara could use to fund the opening of the new shop. [8]

(d) Using Table 2 and any other relevant information, recommend which location Sara should choose for the new shop. Justify your answer. [11]

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2 Fruit Fusions (FF)

FF is a manufacturer of fruit juice drinks with natural ingredients. The drinks are made in an industrial kitchen using batch production. FF buys large quantities of fruit directly from farms in the local area.

FF is owned and managed by Trey Curteis. Trey employs 10 production workers and two sales staff. Each salesperson is paid a basic salary of $400 a month and earns a commission of 2% of the value of sales made. Table 3 shows the value of sales made by each salesperson in February 2016.

Table 3: Sales for February 2016

	Salesperson A ($)	Salesperson B ($)
Value of sales	24 000	9000

Trey has developed a new drink which combines juice and added vitamins. The drink is called Fusion Plus and Trey believes that it will attract consumers who want healthy food and drink. There are currently no other drinks like Fusion Plus in the local market. Trey plans to sell Fusion Plus through health food shops, fitness centres and cafés.

Trey believes that FF needs a Marketing manager to launch Fusion Plus and manage the rest of FF's product portfolio. He has written the person specification shown in Table 4.

Table 4: Person specification

Job: Marketing manager

- Essential to have a university degree in Business
- Desirable to have experience of marketing within the health food/drink market
- Essential to be aged 18–35 years old
- Essential to be ethical
- Desirable to have good human resource management skills
- Will be responsible for two sales staff.

(a) (i) Define the term 'batch production' (line 2). [2]

(ii) Briefly explain the term 'product portfolio' (line 17). [3]

(b) (i) Calculate the total payment received by salesperson A for February 2016. [3]

(ii) Explain **one** benefit to FF of using commission as a payment method for sales staff. [3]

(c) Analyse the person specification shown in Table 4. [8]

(d) Discuss appropriate pricing strategies for the launch of Fusion Plus. [11]

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