Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

BUSINESS **9609/22**

Paper 2 Data Response **May/June 2017**

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 question 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 **4** printed pages and **1** insert.

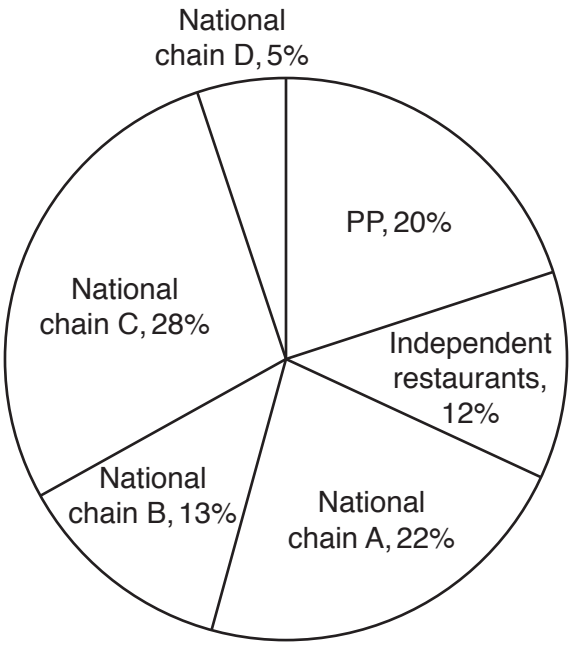
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CAMBRIDGE International Examinations

1 Perfect Pizza (PP)

Paul is a chef. He is looking to set up a new pizza restaurant in his local town in country A. He has done some research into the pizza market in this country.

Fig. 1: Percentage of total pizza market sales in country A for 2016



Paul is considering whether he should set up his own independent pizza restaurant or enter into a franchise agreement with Perfect Pizza (PP), a national chain of pizza restaurants. *5*

Paul has calculated that an independent restaurant will cost $25 000 to set up. This includes all of the furniture and signs required for the restaurant. It also includes some below the line promotion in the local area.

Paul has obtained the following information about opening a PP franchise restaurant.

- It would cost a total of $40 000 to set up *10*
- PP would provide all furniture and signs, branded with the PP logo
- Paul will have to pay a 5% royalty of his monthly revenue to PP
- PP will provide national above the line promotion
- PP has policies for diversity and equality that Paul can use to help with human resource management. *15*

Paul will manage the kitchen. However, he will require a restaurant manager to be in charge of customer service, inventory management and to supervise the non-kitchen employees.

Paul has set up a meeting with his bank manager to discuss a suitable long term source of finance that could be used for this investment.

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(a) (i) Define the term 'long term source of finance' (lines 18–19). [2]

(ii) Briefly explain the term 'diversity and equality' (line 14). [3]

(b) (i) Refer to Fig. 1. The total value of market sales in country A in 2016 was $50m. Calculate the **total** value of sales for the three largest businesses. [3]

(ii) Explain **two** appropriate methods (other than market share) that could be used to measure the size of PP. [3]

(c) Analyse **two** factors Paul should consider when selecting a restaurant manager. [8]

(d) Evaluate whether Paul should enter into a franchise agreement with PP. [11]

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2 Quality Leather (QL)

QL is a worker co-operative. It is equally owned by ten owner-workers and was set up five years ago. QL produces bags, cases and wallets made from leather material. The goods are produced in a small factory using batch production methods.

In the last three years QL's revenue and profits have increased significantly (see Table 1).

Table 1: Selected financial data for the last 3 years ($000)

	2014	2015	2016
Revenue	150	180	240
Cost of sales	60	65	80
All other expenses	15	15	20

The owner-workers elected Iqbal as the leader of the co-operative. Iqbal is a democratic leader with high levels of emotional intelligence. He is good at listening to the opinions and concerns of the other owner-workers. He makes sure that all major decisions are discussed and voted on by each worker.

Due to the success of QL, the owners are considering expanding by producing either high priced leather shoes or low priced leather belts. Information about these two options is shown in Table 2.

Table 2: Information about the two options

Option A: High priced leather shoes	Option B: Low priced leather belts
• Total market value of $2 million • Branding is more important than the quality of the product • Demand is price inelastic • High level of competition • New production machinery would need to be purchased • Requires new distribution channels	• Total market value of $400 000 • The quality of the product is more important than branding • Demand is price elastic • Medium level of competition • No new production machinery would need to be purchased • Could use QL's existing distribution channels

(a) (i) Define the term 'batch production' (line 3). [2]

(ii) Briefly explain the term 'co-operative' (line 1). [3]

(b) (i) Refer to Table 1. Calculate the gross profit margin for 2016. [3]

(ii) Explain the importance of profitability to QL. [3]

(c) Analyse **one** advantage and **one** disadvantage to the other owner-workers of Iqbal's leadership style. [8]

(d) Recommend which option QL should choose for expansion. Justify your choice. [11]

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