Cambridge International AS & A Level

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Cambridge International Advanced Subsidiary and Advanced Level

BUSINESS **9609/21**

Paper 2 Data Response **May/June 2019**

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.

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1 Wood's Logs (WL)

WL was set up by Robert Wood 50 years ago. It is a private limited company with all of the shares owned by the Wood family. Robert has managed the business since it began and he is well liked as the figurehead of the business.

WL cuts down trees and processes them into logs. The logs are loaded onto trucks and trains for delivery to customers. All of WL's logs are sold in industrial markets. *5*

WL is a labour intensive business which has over 100 employees. Demand for logs is seasonal. WL maintains a steady rate of production but the business cannot afford to hold high levels of inventory. Table 1.1 shows a cash flow forecast for the next three months.

Table 1.1: Cash flow forecast for WL

	Month 1 ($000)	**Month 2 ($000)**	**Month 3 ($000)**
Cash Inflows			
Revenue	250	300	100
Total cash in	250	300	100
Cash Outflows			
Labour	150	150	150
Inventory storage	10	5	50
Expenses	5	5	5
Total cash out	165	160	205
Opening balance	20	105	245
Closing balance	105	245	140

10 *15* *20*

The workforce is currently demotivated. Employees receive a basic wage and a share of the profits. In the last four years, profits have been falling and the company is struggling to break even. The demand for logs is decreasing, as businesses use more recycled products. WL does not have any environmental targets and this has also reduced demand. *25*

Robert is now 70 years old and wants to stop managing WL. His grandson, Brad, is keen to become the new Managing Director. Brad went to university and studied Mintzberg's management roles. He believes that he has all the skills needed to become the next Managing Director of WL.

(a) (i) Define the term 'break even' (line 24). [2]

(ii) Explain the term 'industrial markets' (line 5). [3]

(b) (i) Refer to Table 1.1. Calculate the new closing balance for Month 3 if the inventory storage costs for each month increase by 20%. [3]

(ii) Explain **one** benefit for WL of holding inventory. [3]

(c) Analyse **two** factors which may have affected the location of WL. [8]

(d) Recommend which of Mintzberg's management roles is likely to be the most important for the new Managing Director of WL. Justify your recommendation. [11]

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2 Planet Internet (PI)

PI is a public limited company. It is an internet service provider. The business provides fast internet connections to households within country X. Customers pay an average of $10 per month for the service. More than 80% of the households in the country can access PI's services.

The business offers new customers 3 free months of internet service, if they sign a contract for a minimum of 12 months. Very few of PI's customers switch to a competitor's service after the minimum 12 month contract has finished.

The internet service market is very competitive. PI has an objective to become the largest internet service provider in country X. The Marketing Director, Alisha, believes that if PI is going to achieve its objective then the company needs new customers. She thinks that the key to gaining more new customers is to focus on promotion.

Alisha has prepared some secondary market research comparing PI with its main competitors in country X (See Table 2.1). Some of the directors are disappointed with the financial performance of PI compared to its competitors.

Table 2.1: Research about the internet service providers in country X, 2018

	Planet Internet (PI)	Totally Broadband (TB)	W Solutions (WS)
Market share	31%	32%	15%
Value of market share	$12.4bn	$12.8bn	$6bn
Gross profit margin	74%	70%	70%
Net profit margin	8%	12%	16%
Working capital	($45 000)	$300 000	$0
Current ratio	0.9:1	3:1	1:1

(a) (i) Define the term 'objective' (line 8). [2]

(ii) Explain the term 'secondary market research' (line 12). [3]

(b) (i) Refer to Table 2.1. Calculate the total value of the internet service market in country X. [3]

(ii) Explain **one** suitable way, **other than market share**, to measure the size of PI. [3]

(c) Analyse **one** above the line promotional method and **one** below the line promotional method which PI could use to gain new customers. [8]

(d) Refer to Table 2.1. Evaluate the financial performance of PI compared to its competitors. [11]

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