Cambridge Assessment International Education

Cambridge International AS & A Level

BUSINESS **9609/21**

Paper 2 Data Response **May/June 2020**

1 hour 30 minutes

6683524970

You must answer on the enclosed answer booklet.

You will need: Answer booklet (enclosed)

INSTRUCTIONS

- Answer **all** questions.
- Follow the instructions on the front cover of the answer booklet. If you need additional answer paper, ask the invigilator for a continuation booklet.

INFORMATION

- The total mark for this paper is 60.
- The number of marks for each question or part question is shown in brackets [ ].

This document has **4** pages. Blank pages are indicated.

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1 UFilters (UF)

UF is a public limited company selling to an industrial market. It manufactures air conditioning units. UF produces two sizes of air conditioning units, medium and large. Most of its air conditioning units are sold for use in warehouses and computer server rooms. The units are expensive compared to competitors but UF believes its units are of a higher quality. Market research suggests that there is a growing demand for small air conditioning units to be placed in offices. To produce a new size of unit would require spending $180 000 to purchase new machinery.

UF relies on customer recommendations for new orders. However, some customers have been dissatisfied with the service received. UF has received several complaints, including:

- engineers turning up late or not at all
- poor communication from UF
- little choice in the size of units supplied
- appointment times are not always convenient and can be difficult to change.

Sylvie, the Marketing Director of UF, is concerned about the sales data (Table 1.1) as sales have fallen 10% on the previous year.

Table 1.1: Selected sales data for UF, 2019

Unit size	Price ($)	Unit sales
Medium	900	3500
Large	2000	800

Sylvie is considering two options to increase sales (see Table 1.2).

Table 1.2: Options to increase sales

Option 1 Reduce the price of the units by 10%	• Competitors' prices are 8% lower on average. • The estimated price elasticity of demand is –0.8.
Option 2 Implement a performance related pay scheme (PRP)	• Sales staff are currently paid a monthly salary. • To introduce a PRP scheme the monthly salary would be reduced by 10%. • Targets would be set and if sales staff met the targets then they would receive PRP increasing their monthly salary by 15%.

(a) (i) Define the term 'industrial market' (line 1). [2]

(ii) Explain the term 'price elasticity of demand' (line 24). [3]

(b) (i) Refer to Table 1.1. Calculate the total revenue received by UF in 2019. [3]

(ii) Explain **one** source of finance available to UF for purchasing new machinery. [3]

(c) Recommend which of the two options in Table 1.2 UF should choose to increase sales. Justify your recommendation. [11]

(d) Analyse **two** ways, other than the two options in Table 1.2, UF can improve customer relations. [8]

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[Turn over

2 Hannah's Handbags (HH)

Hannah started HH six years ago. HH operates in a niche market providing unique bags. The bags are made using job production. As demand grew for the bags, Hannah took on a partner, her brother Kwom. They both agreed to keep the name 'Hannah's Handbags' as it is an established, reputable and widely recognised brand.

HH operates from a small workshop and showroom. Customers are encouraged to visit the showroom to discuss design and materials with either Hannah or Kwom.

HH employs four highly skilled specialist production staff. Table 2.1 shows an extract from the latest income statement.

Table 2.1: Extract of financial data for HH (year ended 30 October 2019)

	$000
Revenue	980
Cost of sales	588
Expenses	245

A new product

Hannah and Kwom would like to expand the business by producing a limited number of batch produced bags to sell online. Hannah has noticed other bag producers do this successfully. The new market has many more competitors, with 15 large businesses and many small ones. The bags would have to be priced competitively. Kwom estimates that this new venture would require additional finance of $350 000. HH would also require a specialist IT provider to set up a website and a marketing agency to run a viral marketing campaign.

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

(ii) Explain the term 'viral marketing' (line 20). [3]

(b) (i) Refer to Table 2.1. Calculate the gross profit margin. [3]

(ii) Explain **one** reason why HH needs accurate cost data. [3]

(c) Analyse **one** advantage and **one** disadvantage to HH of using job production. [8]

(d) Evaluate the likely success of the marketing mix for the new product. [11]

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