UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Subsidiary Level and Advanced Level

BUSINESS STUDIES **9707/22**

Paper 2 Data Response **May/June 2010**

1 hour 30 minutes

Additional Materials: Answer Booklet/Paper

4274609939

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.
Do not use staples, paper clips, highlighters, glue or correction fluid.

Answer **all** questions.
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.

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

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1 Sassy Suits

Sassy Suits (SS) is a sole trader business run by John. SS have been manufacturing high quality men's suits for over 50 years. The suits are of a traditional design. Each suit is made to individual customer sizes with high quality materials using job production.

SS has a highly skilled workforce and most employees have worked for SS for a long time. Many employees say that they like the family atmosphere of the business, that they are treated with respect and that they have job security.

Profits have fallen for several years. John thinks this is because of changes in fashion. Increased unemployment in the financial sector means that there are fewer customers. John is worried about profit margins.

Table 1: Financial Data ($000)

	2009	2010
Sales Revenue	180	160
Gross Profit	120	100
Expenses	60	60

John thinks that the business needs to change. He has identified a possible market for cheaper, ready-made suits to be sold in clothing shops. Ready-made suits are made to standard designs and sizes using batch production. SS would use cheaper materials. Customers for ready-made suits look for value for money rather than exclusive designs.

John has identified the following problems that might arise from the change:

- Existing staff would have to completely change their way of working
- A change in focus of the business from small volume exclusive quality to high volume reliability
- Quality control methods would have to change.

(a) Explain the terms:

(i) batch production (line 17) [3]

(ii) quality control (line 23). [3]

(b) **(i)** Calculate the net profit margin for SS in 2010. [3]

(ii) The net profit margin for SS in 2008 was 50% and for 2009 was 33%. Using Table 1 and your answer to part **(i)**, briefly comment on the trend in net profit margin. [3]

(c) Analyse the possible impact on SS's workforce of a change from job to batch production. [8]

(d) Discuss the marketing issues that SS might consider if they decide to produce ready-made suits. [10]

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2 Sheep Stew

Ruth and David are the major shareholders in Brookfield Farm (BFC), a private limited company. The farm is in the primary sector. BFC has a large flock of sheep that produces high quality meat. For the last 10 years all of the sheep have been sold at the local market. This method of selling has led to very large differences in prices for the sheep from month to month. BFC wants to achieve its objective of a steady and regular income which is unusual in the farming industry. Topend Supermarkets (TS) has offered BFC a 5-year contract to buy all of BFC's meat. BFC wants a fixed price for this contract. TS will sell the high quality meat at premium prices to high income consumers.

To accept this contract, BFC would have to spend $10 000 on new machinery to prepare and package the meat. David estimates that the extra net income generated per year from the project would be $3 000.

TS uses a large number of suppliers for its meat. It also imports meat from countries with lower costs. Not all of TS's suppliers are as ethical as BFC with their farming methods.

Ruth thinks that the plans for expansion would be helped by changing BFC from a private limited company to a public limited company.

(a) Explain the terms:

(i) shareholders (line 1) [3]

(ii) primary sector (line 2). [3]

(b) **(i)** Calculate the payback period for the new packaging machinery. [3]

(ii) Explain the limitations to BFC of payback as an investment appraisal technique. [3]

(c) Analyse the advantages and disadvantages to BFC of changing to a public limited company. [8]

(d) Discuss the factors that BFC will need to consider when negotiating a price with TS for the contract. [10]

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