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

BUSINESS STUDIES **9707/23**

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

1 hour 30 minutes

Additional Materials: Answer Booklet/Paper

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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 Classy Clocks

Classy Clocks (CC) is a public limited company. CC has been manufacturing high quality clocks for over 50 years. The clocks are of a traditional design. Clocks are made with high quality materials using batch production.

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

Sales have fallen for several years. Ian, the Managing Director, thinks this is because economic conditions mean customers have less money to spend.

CC's prices have recently increased at 10% per year while unit costs have also increased. Ian is worried about profit margins.

Table 1: Turnover and Cost Data ($000)

	2009	2010
Turnover	100	50
Cost of goods sold	70	40

Ian thinks that the business needs to change. He has identified a possible market for clocks in schools. Each room could have a clock which would show exactly the same time as all others using a central control clock. Cheaper materials would be used and the clocks would be made to a standard design using flow production. Schools would look for value for money. Quality assurance will continue to be important.

Anna, the Human Resources Manager, 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
- The possibility that some of the components could be bought from countries with lower labour costs.

(a) Explain the following terms:

(i) flow production (line 18) [3]

(ii) quality assurance (line 19). [3]

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

(ii) The gross profit margin for CC in 2008 was 40% and for 2009 was 30%. Using your answer to part **(i)** and Table 1, briefly comment on the trend in gross profit margin for CC. [3]

(c) Analyse the purpose of Human Resource Management (HRM) if CC were to change from batch to flow production. [8]

(d) Apart from HRM, discuss the factors that CC should consider in changing its target market to schools. [10]

2 Vegetable Soup

Brian and Jenny own Sunshine Farm (SF), as a partnership. The farm grows a variety of vegetables, to the highest organic standards. For the last 10 years, all of the vegetables have been sold to Quality Soups (QS), who operate in the secondary sector. This arrangement has benefitted the farm. It has helped SF avoid being exposed to an unpredictable market. QS has recently said it will now only accept lower standard vegetables and pay lower prices because it is planning to switch its marketing to the budget end of the market. This will reduce SF's revenue.

Jenny has the idea that the highest quality vegetables could be packed by SF in small, attractive boxes and sold in the city using the brand name 'Seasonal Choice'. Customers are likely to be those with high incomes, looking for something much better than usually available in supermarkets. Seasonal Choice could be sold in 5 shops owned by Jenny's sister in the city.

To go ahead with Seasonal Choice, SF would have to spend $5000 on new machinery to wash and package the vegetables. Brian estimates that the extra net income generated from the project would be $1500 per year for 5 years.

The retail vegetable market is highly competitive, dominated by supermarkets. Consumers are becoming much more demanding in terms of value for money, the organic origins of the vegetables, and the quality of the vegetables.

Jenny thinks that the plans for the project would be helped by a change from a partnership to a private limited company.

(a) Explain the terms:

(i) secondary sector (line 3) [3]

(ii) private limited company (line 20). [3]

(b) **(i)** Calculate the accounting rate of return (ARR) for the new packaging machinery. [3]

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

(c) Analyse the advantages and disadvantages to Brian and Jenny of continuing to operate SF as a partnership. [8]

(d) Discuss the factors that SF will need to consider in marketing Seasonal Choice. [10]

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