UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Advanced Level

BUSINESS STUDIES **9707/31**

Paper 3 **May/June 2010**

CASE STUDY

3 hours

Additional Materials: Answer Booklet/Paper

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.
You may use a soft pencil for any diagrams, graph or rough working.
Do not use staples, paper clips, highlighters, glue or correction fluid.

Section A
Answer **all** questions.
Section B
Answer **one** question.
The businesses described in this question paper are entirely fictitious.
You are advised to spend 40 minutes on Section B.

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 **6** printed pages and **2** blank pages.

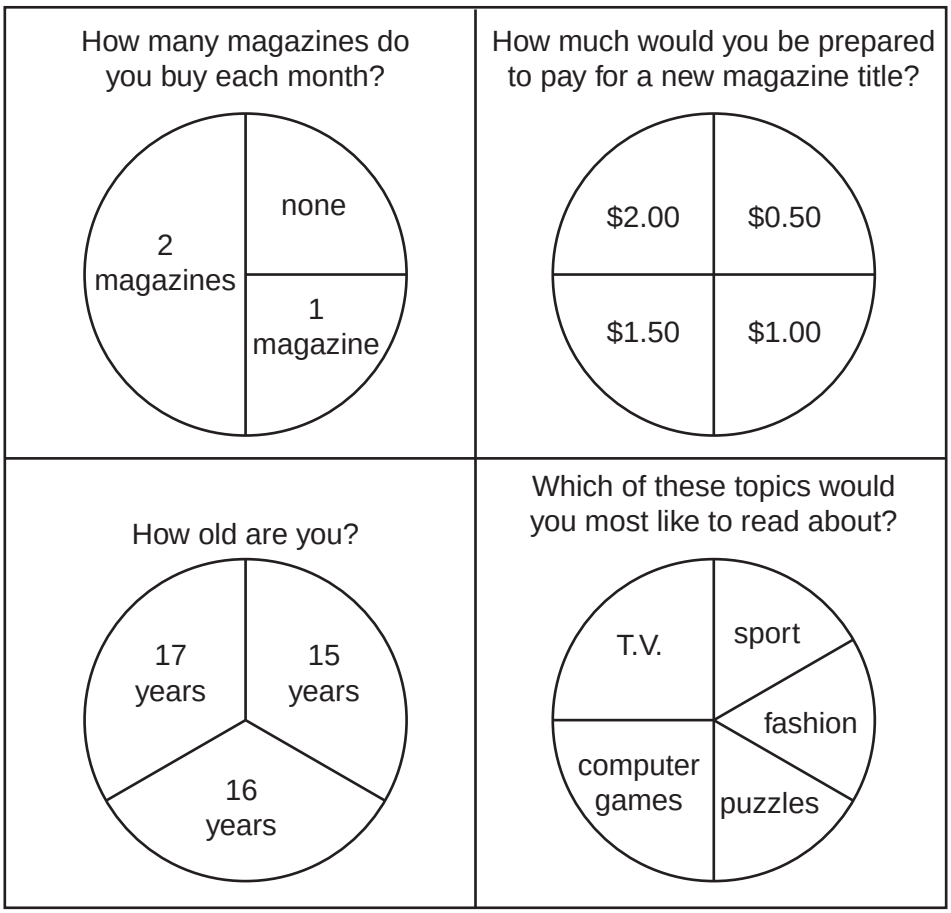
© UCLES 2010

TeenPrint

The first magazine

Ahmed studied Business Studies and Journalism at university. Five years ago economic conditions were difficult and he could not find employment even with his degree. His friend Malika suggested that they start a magazine for teenagers. 'We ran a weekly newsletter at school that was very popular. A new magazine could be aimed at boys and girls with articles on sport, fashion, celebrities, puzzles and reviews of music and new computer games' suggested Malika. 'OK, we could call it TeenMag and sell it outside of schools, as shops would ask for a very high share of the selling price' Ahmed replied.

Ahmed had learned the importance of market research so he prepared a short questionnaire for students. He handed 200 of these out at the gates of two schools and asked for them to be returned the next day. He was surprised to receive just over 10% back but he thought the results were interesting. A summary of them is given below:



The friends agreed to start a partnership, each putting in $5000 start-up capital. They called the business 'TeenPrint'. Ahmed started to plan the first edition. Malika suggested researching other magazines for teenagers but Ahmed said time was short as he wanted to get the first copy ready before the school holidays. 'We are still young ourselves so we remember what the magazines were like that we used to read' he said.

Early success

Sales of the first few editions exceeded expectations. The office photocopier was hard pressed to keep up with demand! The magazine's success led to a local TV company interviewing Ahmed and this led to further publicity for the magazine. It became obvious that production facilities needed to be expanded to keep up with demand.

© UCLES 2010

Production expands

The closure of the nearby City Publishing Company gave Ahmed an opportunity. He bought some old printing presses cheaply from the company and recruited two workers who had been made redundant to operate them. Malika agreed to act as Operations Manager, but she wondered if it would be better to spend more money on buying high technology printing machines and stock control systems. This view was confirmed when in the next few months these problems arose:

- Low quality magazine pictures
- High stocks of paper and printed magazines taking up much factory space
- Machine breakdowns with the print workers unwilling to repair machinery.

New investor leads to private limited company status

The publicity for TeenMag led to an approach from a venture capital business, Novak, to set up a private limited company to help expand Ahmed's media business. Novak invested $40 000 but insisted on 50% of shares in TeenPrint, the new private limited company. Ahmed and Malika only received 25% of the shares each.

The new capital was used to:

- Develop an Internet online version of the TeenMag magazine
- Buy new computer-controlled printing machines.

Quality improvements soon followed. The Internet version of the magazine proved very popular with the target market, but there was online feedback that it would soon take sales away from the printed magazine.

New magazines planned

Product development was now the company's main objective. Malika and Ahmed discussed two expansion options.

Option 1: Magazine for people aged 56–70

Malika wanted the business to target much older potential consumers. 'There are so few magazines for older people – say 56–70 years. I am sure this could be another niche market for us. People in this age range have more disposable income to spend on goods like magazines. On average they have savings, few loans, and Government pensions have just increased' said Malika.

Option 2: Magazine for people aged 20–35

Ahmed suggested a magazine for readers slightly older than those of TeenMag – those aged 20–35 years. 'As our current readers grow out of the TeenMag they will switch to the new title. The average age of our writers is 28 so they know what this segment wants in a magazine. This age range buys more magazines than other ages' he told Malika.

They agreed to ask the accountant to prepare data and financial forecasts for both options. His report included the data in Appendix A and the decision tree in Appendix B. He suggested that if either option was successful with a printed magazine, an Internet version could also be considered. The report emphasised the factors likely to influence the pricing decision for a new magazine launch. Not only would costs have to be covered but the level of competition and the state of the country's economy would be important factors.

Problems develop

The expansion of the business led to wider spans of control. The number of print workers had increased to 12 with one supervisor. Stock levels were still very high and workers lacked training to do more than one job. Six months after the Internet launch of TeenMag, sales of the paper magazine had fallen by 20% but production costs had only been cut by 10%. The uncertainty over job security added to the low productivity of the print workers and low levels of motivation. Although the workers were promised that a new magazine title would soon secure their jobs, Ahmed and Malika had very different views on how workers should be managed within the factory. Their different approaches are summed up in Table 1:

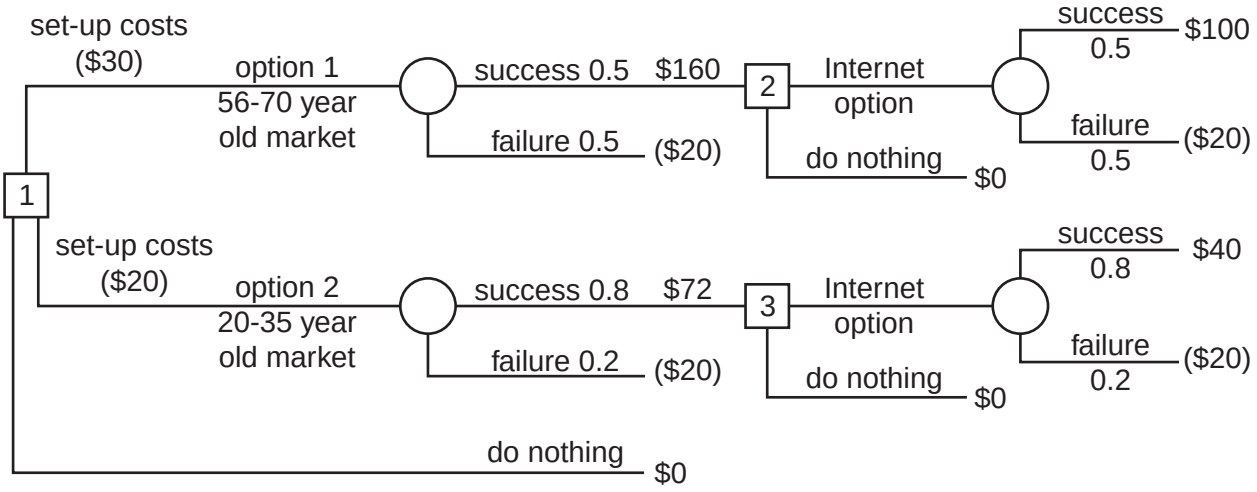
Table 1

Ahmed's approach:	**Malika's approach:**
• Piecework pay for production workers	• Salaries plus profit sharing bonus
• Supervisors to decide on best way for jobs to be done	• Job enrichment for developing workers' flexible skills
• Clear instructions given to each worker	• Quality circles

Appendix A: Data for the Country (2012 and 2014 are forecasts)

	2010	2012	2014
% increase in consumer spending by 20–35 year olds	6	4	2
% increase in spending by 56–70 year olds	6	5	5
% of population aged 20–35	10	11	11
% of population aged 56–70	15	18	19

Appendix B: Decision tree (All financial data $000's)



Appendix C: Summary of accounting data for TeenPrint at end of 30/04/10 ($000)

Capital employed	167
Share capital (80 000 issued shares @ $1)	80
Long term loans	77
Current liabilities	24
Current assets	26
Stocks	12
Annual retained profit	10

85

90

Appendix D: Economic forecasts

	2011	2012	2013
GDP growth rate (%)	4	2	1
Inflation rate (%)	6	7	9
Interest rate (%)	5	7	8
Exchange rate index	100	95	92
Income tax rate (%)	35	35	40

95

© UCLES 2010

[Turn over

Section A

Answer **all** questions in this section.

1 Analyse **two** limitations of the market research Ahmed conducted before setting up the business. [8]

2 Discuss which of the two approaches to managing the workforce in the printing factory should be adopted by the company in response to the problems explained on lines 64–71. [16]

3 Evaluate the pricing methods that the company could use if the magazine for **20–35 year olds** is launched. [14]

4 **(a)** Using the data in Appendix C, calculate:

(i) Acid test ratio [3]

(ii) Gearing ratio. [3]

(b) Using your results to **(a)** and other data, recommend which sources of capital the company should use to finance the $30 000 set-up costs of the magazine for **56–70 year olds**. [10]

5 **(a)** Use the decision tree (Appendix B) to calculate the expected monetary values of the two options. [10]

(b) For which age range would you recommend TeenPrint to launch the new magazine? Use your results to **(a)** and any other information to support your recommendation. [16]

Section B

Answer **one** question from this section.

6 Evaluate the extent to which external economic change will be the major factor determining future profits of the TeenPrint company. Refer to Appendix D and other information in your answer. [20]

7 Would you advise the company to adopt lean production methods for the printed magazines? Justify your answer. [20]

© UCLES 2010

BLANK PAGE

© UCLES 2010

BLANK PAGE

Permission to reproduce items where third-party owned material protected by copyright is included has been sought and cleared where possible. Every reasonable effort has been made by the publisher (UCLES) to trace copyright holders, but if any items requiring clearance have unwittingly been included, the publisher will be pleased to make amends at the earliest possible opportunity.

University of Cambridge International Examinations is part of the Cambridge Assessment Group. Cambridge Assessment is the brand name of University of Cambridge Local Examinations Syndicate (UCLES), which is itself a department of the University of Cambridge.