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

BUSINESS STUDIES **9707/21**

Paper 2 Data Response **May/June 2012**

1 hour 30 minutes

Additional Materials: Answer Booklet/Paper

8838067282

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 Advanced Control Systems (ACS)

ACS makes electronic components for the country's top car racing teams. ACS uses the latest technology to design and manufacture their electronic components. Each electronic component is designed individually by specialist engineers.

ACS is trying to gain a contract with one of the world's largest multinational car manufacturers. ACS will manufacture electronic components for these cars. ACS claims their electronic components could reduce fuel consumption by 8%. If ACS wins the contract it would completely change the scale and nature of ACS's operations.

The marketing manager has produced some forecasts of the probable changes to ACS's accounts if ACS wins the contract. He assumes that the prices for the contract will be based on competitive pricing.

Table 1: Forecast changes for ACS based on competitive pricing

	Without contract	With contract
Revenue ($m)	0.4	10.5
Profit (before tax) for the year ($m)	0.1	2.1
Net profit margin (%)	25	20
Current assets ($m)	1.4	0.7
Current liabilities ($m)	0.7	1.4
Current ratio	2	X

The new contract will require:

- electronic components for a wide range of cars
- no faulty products and reliability for 10 years
- high volume production
- frequent design changes to keep up with competitors' developments
- ACS to use suppliers who provide best value for money.

The directors of ACS will meet with worker representatives to discuss how to make the changes that will be needed.

(a) Explain the following terms:

(i) directors (line 26) [3]

(ii) worker representatives (line 26). [3]

(b) Assume that ACS wins the contract.

(i) Calculate the current ratio with the contract (X in Table 1). [3]

(ii) Briefly comment on the impact on ACS's financial situation if ACS gets the contract. Use information in Table 1 and your answer to **(b)(i)**. [5]

(c) Assume ACS wins the contract. Explain why ACS will need to make changes to its manufacturing operations. [6]

(d) Discuss whether competitive pricing (line 10) is the best method to use in setting the prices for the new contract. [10]

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2 Eagle Golf Club (EGC)

EGC owns and operates Newtown's golf course. Falling revenues mean that EGC needs to change its marketing focus. EGC targets the niche market of wealthy business people. In an attempt to create a unique selling point (USP) the club promotes itself as 'small and friendly'. There is also a restaurant used by members and guests. The club secretary has produced the information shown in Table 2.

Table 2: Information on EGC compared with main competitor, 2011

	EGC	Competitor
Members	400	200
Annual revenue ($000)	100	60
Land area (square km)	10	15
Capital employed ($000)	500	700
Annual revenue per member ($)	Y	300

EGC plans to improve the golf course so that it will be suitable for holding the famous national golf competition. This competition attracts golfers from around the world.

Two possible sources of income have been identified to pay for this expansion:

- increasing members' fees
- selling some unused land for office building.

The owners of EGC want to change the restaurant so that it can open to non-members. Restaurant staff and members have complained about the autocratic style of Jan, the restaurant manager. The staff are very experienced and work very hard. They think that Jan does not understand this and interferes too much. This limits their ability to provide good customer service. However, Jan has ambitions to make the restaurant the best in town. He knows that a good restaurant needs strong leadership.

(a) Explain the following terms:

(i) niche market (line 2) [3]

(ii) unique selling point (USP) (line 3). [3]

(b) **(i)** Calculate the annual revenue per member for EGC (Y in Table 2). [2]

(ii) Comment on the size of EGC relative to its competitor. Use the information in Table 2 and your answer to **(b)(i)**. [4]

(c) Analyse the advantages and disadvantages of each of the sources of income suggested. [8]

(d) Evaluate the extent to which Jan's approach to his workforce will help to achieve his objective of making the restaurant 'the best in town'. [10]

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