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 2012**

1 hour 30 minutes

Additional Materials: Answer Booklet/Paper

2421195451

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 Bright Air Conditioning (BAC)

BAC manufactures air conditioning units. These units are fixed in place in new buildings when they are built. BAC has many competitors in this market. BAC's main customers are building firms. Marketing is directed at building firms through trade magazines and personal selling.

The Research and Development team at BAC has developed an air conditioning unit that can be operated by power from the sun's energy. This new unit, branded Ecocon, will not be fixed in place – it will be easy to move around.

BAC has identified the following possible target markets:

- businesses that need movable air conditioning
- households and businesses that have unreliable electricity supplies
- the 'environmentally aware' consumer.

BAC needs to ensure that Ecocon units are easy to use. The units will need to be low cost, but reliable.

Ecocon customers will be final consumers rather than builders. This means that units will not be built to order, but mass produced and held in stock (inventory).

Table 1: Forecast impact on BAC's annual accounts of introducing Ecocon units

	Without Ecocon	With Ecocon
Revenue ($m)	50	75
Net profit before tax ($m)	5	15
Net profit margin	10%	20%
Current assets ($m)	15	22
Current liabilities ($m)	10	11
Inventories ($m)	5	11
Current ratio	1.5	to be calculated
Acid test ratio	1	to be calculated

BAC's workforce is motivated through performance related pay and empowerment.

(a) Explain the following terms:

(i) performance related pay (line 26) [3]

(ii) empowerment (line 26). [3]

(b) Explain how technology could be used by BAC to design and manufacture the new Ecocon. [6]

(c) Analyse the impact on BAC's profitability and liquidity ratios if the new Ecocon units are introduced. Use the information in Table 1 and appropriate accounting ratios in your answer. [8]

(d) Recommend changes to BAC's marketing mix if BAC decides to introduce Ecocon. Justify your recommendations. [10]

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2 Largetown Football Club (LFC)

LFC is a very successful football club. LFC is owned by the Lewis brothers as a partnership. LFC has won many competitions and has made big profits. Recently revenues have fallen due to reduced payments from television companies who broadcast some of LFC's games. Costs have risen recently, with footballers' wages continuing to grow rapidly. As a result profits are falling.

The owners of LFC are considering two ways of increasing revenues:

- increasing the price of tickets for matches
- increasing above the line promotion to create more sales of football shirts, coffee cups and other branded products from its shop.

LFC employs 20 paid footballers. In addition LFC's employees include 2 managers, 18 office and general workers, 5 shop workers and 20 part-time workers for supervising crowds at matches.

The football team is doing very well, led by an inspirational new team manager called Roger. The office workers have complained about the poor pay and the autocratic style of the Managing Director, Peter. Motivation amongst non-playing employees is low, with high staff turnover and increasing absenteeism.

LFC's main competitor is Big City United (BCU). The directors of BCU claim that BCU is the country's largest football club. LFC prepared the following table.

Table 2: Data comparing the size of the two football clubs, 2011

	LFC	BCU
Average crowd attendance per match	10 000	15 000
Annual turnover ($m)	30	50
Cups won	25	30
Employees	65	45
Non-current assets ($m)	120	100
Market share measured by ticket revenue (%)	X	20

(a) Explain the following terms:

(i) profits (line 2) [3]

(ii) above the line promotion (line 8). [3]

(b) **(i)** Assume LFC's ticket revenue in 2011 is $20 m and total ticket revenue in LFC's country is $80 m. Calculate LFC's market share measured by ticket revenue (X in Table 2). [2]

(ii) Analyse BCU's claim to be the country's largest football club. Use the information in Table 2 in your answer. [6]

(c) Briefly analyse the advantages and disadvantages of each of the ways of increasing revenue (lines 6–9). [6]

(d) Evaluate the importance of leadership to LFC's success. [10]

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