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 2013**

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 Regal Restaurant (RR)

RR is owned and operated as a franchise. The franchisor is a large, foreign-owned international company, Special Foods (SF). RR provides fast service by selling a limited choice of food. This helps to keep prices low at RR. The restaurant specialises in seafood.

Basir, the franchisee, wants to increase RR's market share. He forecasts that RR's revenue for 2013 will increase by $20 000 to $200 000. He read in the financial newspapers that the total sales for restaurant food in the city is likely to be about $10m in 2013.

RR mainly recruits university students. The students need the money and can work flexible hours. This has worked well but labour turnover has increased in the last year. Rose, who is responsible for staff, has identified the following factors that could explain the increase in labour turnover.

- The university has increasing numbers of foreign students who may not need a paid job.
- New food regulations are making working at the restaurant less fun.
- A competitor franchise has recently opened in the city.
- Newspaper reports stating that SF does not consider corporate responsibility when it purchases its seafood.
- A case of unfair dismissal brought by an employee who has left.

RR has to buy most of its ingredients from SF; however, it is allowed to buy some local seafood for special dishes. SF provides all of the systems for accounting, inventory control and above the line promotion. However, RR is able to do its own recruitment. RR can decorate its restaurant how it wants, subject to approval from SF.

(a) Explain the following terms:

(i) corporate responsibility (line 15) [3]

(ii) above the line promotion (line 20). [3]

(b) **(i)** Calculate RR's forecast market share for 2013. [2]

(ii) Explain **two** disadvantages to RR of using market share as a measure of business performance. [4]

(c) Analyse the advantages and disadvantages to RR of operating as a franchise. [8]

(d) Evaluate methods that Rose could use to reduce the high labour turnover. [10]

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2 Trendy Paints (TP)

TP is a partnership and so the partners do not have limited liability. TP manufactures special paints for industrial use such as painting aircraft in an airline's colours. TP has one factory which uses a batch production system. This has been ideally suited to the specialised paints industry as each batch has a different colour and use.

Currently TP sells 50 million litres of paint each year. Most of the marketing is done through regular visits to industrial customers, such as airlines, with prices determined by negotiation.

TP's competitors are all subsidiaries of large, international public limited companies. The competitors use new technology which means that their equipment can produce paints continuously, with the 'click of a mouse' changing the colour and packaging instantly.

Didi, TP's Operations Director, proposes replacing the existing production system with new machinery similar to that used by competitors. He has prepared the following estimates.

Table 1: Cost information

	Existing system	Proposed new production system
Fixed costs per year	$200m	$300m
Average variable costs per litre	$5	$3

Emma, the Marketing Director, can see the opportunity to develop new markets. She thinks the aircraft paints would be particularly useful for general painting, for example on houses where severe weather conditions might damage ordinary paints. Entering the house paint market would mean selling to many more customers, perhaps using wholesalers.

(a) Explain the following terms:

(i) limited liability (line 1) [3]

(ii) wholesalers (line 19). [3]

(b) **(i)** TP sells its paints at an average price of $10 per litre. Using Table 1, calculate the break-even level of production per year for TP's proposed new production system. [3]

(ii) The annual break-even level for the existing production system is 40 million litres. Comment on the change in break-even if TP introduces the new production system. [3]

(c) Analyse why TP's objectives could differ from those of its competitors. [8]

(d) Evaluate changes to the marketing mix if TP decides to enter the house paint market. [10]

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