Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

BUSINESS STUDIES **9707/23**

Paper 2 Data Response **May/June 2015**

1 hour 30 minutes

No Additional Materials are required.

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READ THESE INSTRUCTIONS FIRST

An answer booklet is provided inside this question paper. You should follow the instructions on the front cover of the answer booklet. If you need additional answer paper ask the invigilator for a continuation booklet.

Answer **all** questions.
The businesses described in this question paper are entirely fictitious.
The number of marks is given in brackets [ ] at the end of each question or part question.

This document consists of **4** printed pages and **1** insert.

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CAMBRIDGE International Examinations

1 Enterprise Electricals (EE)

EE is a private limited company. EE owns a chain of shops selling electrical goods including refrigerators. EE has grown over recent years but last year revenue fell from $250 000 to $220 000. EE's shops are usually in town centres.

EE now has increased competition from a multinational electrical retailer, Meteor. Meteor has strongly promoted its e-commerce facilities as well as recently opening many new shops in EE's country. Meteor's marketing includes: the lowest possible prices, ease of shopping online and shops situated in convenient locations out-of-town. Meteor keeps costs low by only employing the minimum number of employees and through economies of scale achieved by selling a limited range of products.

Jed, the Marketing Director of EE, is reviewing EE's marketing strategy. Jed observed that when EE recently reduced prices of refrigerators by 20%, weekly demand for refrigerators increased from 200 to 210. Jed is looking at the following results of a consumer survey.

- Which Electrical Retailers have you heard about? EE 20%, Meteor 70%, Both 10%
- What does the brand name EE mean to you? Reliability 20%, Nothing 80%

For those who shopped at Meteor:

- What attracted you most to Meteor? Low prices 55%, Advertising 30%, Convenience 15%
- What do you most dislike about Meteor? Poor after-sales service 40%, Faulty products 10%, Wrong advice 30%, Limited choice of products 15%, Nothing 5%

For those who shopped at EE:

- Would you shop there again? Yes 90%, No 5%, Don't know 5%
- What do you most like about EE? After-sales service 50%, Knowledge shown by sales staff 35%, Choice of products 15%

The Finance Director has prepared some financial information for the most recent 12 months – see Table 1. She is aware that EE has some financial problems. The business is not benefitting from a new inventory control method.

Table 1: Extracts from EE's accounts

	Year ending June 2014	Year ending June 2015
Net profit margin	15%	4%
Gross profit margin	50%	45%
Inventories ($000)	30	60
Trade receivables ($000)	17	25
Cash ($000)	13	5
Current liabilities ($000)	30	60
Current ratio	2	1.5
Acid test ratio	1	0.5

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(a) Explain the following terms:

(i) economies of scale (lines 8–9) [3]

(ii) inventory control (line 26). [3]

(b) **(i)** Calculate the price elasticity of demand for refrigerators (line 11). [3]

(ii) Using your answer to **(i)**, comment on the usefulness to EE of price elasticity of demand. [3]

(c) Analyse EE's financial problems. [8]

(d) Evaluate the importance to EE of applying the concepts of the 4Cs to improve the relationship between EE and its customers. [10]

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2 Frank's Farm (FF)

Frank is a sole trader and he owns FF. FF's farm products are sold at the city market. Over the most recent 12 months weather and market conditions have significantly reduced FF's profits. Frank has tried to reduce unit costs but needs to do more to make sure that the business survives.

The Government has given him an idea. The Government wants to encourage farmers to help schools with education. The Government's plan is to offer farmers a grant to provide facilities for visits by school students. This way schools can develop a range of student interests such as the source of food, care for the environment and care of animals. Students will also develop the skills of numeracy, observation and decision making.

After talking to local schools Frank has decided to proceed with a project for an education centre on his farm. Frank will need to:

- source finance for the project
- convert buildings
- find someone to manage the education centre.

For each school visit, Frank would receive a fee from the Government of $50 and a payment from the school of $40. Frank estimates the fixed costs for the project will be $1000 per year and variable costs are $30 per visit.

Frank's experiences are entirely in farming. He is good at making decisions about what to grow and he can sort out problems on the farm, such as repairing farm vehicles. He negotiates well with buyers and suppliers. He manages finances well, with very efficient use of the farm's working capital. The farm is not labour intensive, so Frank only uses his sons and daughters to help with the work.

Frank will need someone to manage the education centre. He is considering two options.

Option 1: Recruit the manager as an employee
Option 2: Find a business partner who would also manage the education centre.

The bank has advised him to find a business partner.

The education facilities would not only need a manager, but also four part-time employees. They would need to be qualified to work with children.

(a) Explain the following terms:

(i) unit costs (line 3) [3]

(ii) labour intensive (line 21). [3]

(b) **(i)** Calculate the number of school visits needed each year for FF to break even. [3]

(ii) Using your result to **(i)** comment on the usefulness of break-even to FF. [3]

(c) Recommend which of the two options Frank should choose (lines 24–25). Justify your answer. [10]

(d) Analyse the factors (other than finding the right manager or partner) that might influence the success of the education centre. [8]

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