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

BUSINESS STUDIES **9707/22**

Paper 2 Data Response **October/November 2010**

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 **4** printed pages.

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1 Big Boxes

Big Boxes (BB) is a public limited company that makes plastic products for use in the transport and storage industries. Their main products include boxes with lids for storing books and papers, as well as boxes used for packing items for transporting when businesses move premises. BB has a number of difficulties.

Extract of statement from Chairman of Big Boxes

We need to change. Imported raw material costs and higher interest rates have increased our costs. Decreased economic activity means that businesses are not moving to new premises, so there is a large decrease in the demand for our products. Also e-commerce and the increased use of computers mean that there are far fewer documents to store. The following financial information highlights the problems:

Table 1 ($m)

	2010	**2011** (forecast)
Sales revenue	180	120
Cost of goods sold	70	60
Overheads	20	30

Extract from statement by the Marketing Director of BB

We must look at ways of improving the business or we will not survive. Our research teams have identified that consumers need more storage boxes in their homes while businesses need fewer. We must change our market from business customers to final consumers. However, consumers are likely to be more demanding than businesses in terms of prices, appearance and quality.

Extract from statement by the Government

We faced a difficult time during the country's recent recession. Inflation is now a risk. Interest rates may have to rise. The environment still remains one of our priorities.

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(a) Explain the following terms:

(i) interest rates (line 6) [3]

(ii) e-commerce (line 9). [3]

(b) **(i)** Calculate the forecast net profit margin for 2011. [3]

(ii) The net profit margin for 2010 is 50%. Using Table 1 and your answer to part **(i)**, comment on the trend in net profit margin. [3]

(c) Analyse the likely impact of external influences on the activities of BB. [8]

(d) Discuss how BB might change their marketing mix in response to the change in the market for its products. [10]

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2 Newtown Hospital

Newtown Hospital (NH) is in the public sector. NH has a very high reputation. NH does not charge its patients for treatments, but relies on Government grants for its revenue. NH is expecting a smaller grant from the Government next year even though its costs are increasing.

The hospital management is discussing a project to provide extra revenue by renting out facilities to private sector health organisations whose patients pay fees for their treatment. NH will need to use market research to help set the prices it might charge these organisations for renting its facilities.

Extra equipment will have to be provided. Facilities such as operating theatres will have to be managed better to provide increased capacity utilisation. Private sector fee-paying patients will expect more services, such as better quality food, TV and Internet access in their rooms.

NH's management has prepared the following cash flow forecast for the start of the project.

Table 2 ($m)

Month:	**1**	**2**	**3**	**4**
Opening balance	0	–12	–24	–20
Cash inflow	0	0	8	20
Refurbishment costs	10	10	0	0
Operating costs	0	0	2	4
Staff costs	2	2	2	3
Closing balance	–12	–24	–20	–7

The hospital management do not want to employ extra staff for this project. Existing staff will be expected to increase their efficiency and to work overtime. Most of the employees belong to a trade union which is worried about the impact of the project on its members.

(a) Explain the following terms:

(i) public sector (line 1) [3]

(ii) capacity utilisation (line 10). [3]

(b) **(i)** Suppose cash inflow in month 5 is $30 million higher than in month 4 and all costs remain the same as those for month 4 (see Table 2). Calculate the closing balance for month 5. [3]

(ii) Using Table 2 and your answer to part **(i)**, explain the usefulness of the cash flow forecast to NH. [3]

(c) Analyse methods of market research that NH could use to help set the prices that it might charge private sector health organisations. [8]

(d) Discuss the factors that NH needs to consider in managing its human resources when starting the 'renting out' project. [10]

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