Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

BUSINESS STUDIES **9707/21**

Paper 2 Data Response **October/November 2014**

1 hour 30 minutes

No Additional Materials are required



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 **3** printed pages, **1** blank page and **1** insert.

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1 Classic Cars (CC)

CC is a large public limited company that manufactures a range of cars which it sells through its own retail outlets. Each car is developed to meet the needs of a specific target market. Production takes place in several large factories using flow production methods. James is the Managing Director and he has been studying the revenue and profit data shown in Table 1.

Table 1: Revenue and profit data for CC

	2011	2012	2013
Annual revenue ($ billion)	450	515	595
Profit (before tax) for the year ($ billion)	14	24	35
Net profit margin	3.11%	4.66%	X

James believes that the success of CC depends on the following 2 key factors.

- Being price competitive – mainly achieved through a business objective of keeping costs low.
- High level of investment in research and development to ensure that CC produces modern and technologically advanced cars.

James is working with Bilal, Director of Research and Development, to plan the investment of an additional $500m in developing a new car. This will be aimed at the family market. James also needs to meet with the Marketing Director to develop a pricing strategy for the new car. He will then present his overall plans to the Board of Directors at the next meeting.

Kevin, the Human Resources Director, knows that labour turnover has increased from 5% to 7% in the last 2 years. This has been caused by low rises in wages and salaries and a poor range of perks (fringe benefits) for employees. Kevin wants CC to concentrate more on triple bottom line targets and not just profit.

(a) Explain the following terms:

(i) flow production (line 3) [3]

(ii) triple bottom line (line 22). [3]

(b) **(i)** Calculate the value of X in Table 1. [2]

(ii) Briefly explain **two** reasons for the trend in CC's net profit margin. [4]

(c) Analyse the disadvantages to CC of the increase in labour turnover. [8]

(d) Discuss a suitable pricing strategy that could be used by CC when launching its new car. [10]

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2 Blooming Flowers (BF)

Fiona has opened a new shop in a busy town centre. It is part of a franchise agreement between Fiona (franchisee) and Blooming Flowers (franchisor). Each franchise retails a range of flowers, as well as standard and made-to-order floral displays. Typically, in each BF franchise 90% of revenue is from consumer markets and 10% from selling to local businesses.

The cost to set up the franchise, including a BF branded delivery vehicle, was $20 000. Fiona financed this with the $15 000 redundancy payment from her previous job and $5000 of her personal savings. Fiona has to pay 4% of her quarterly revenue to BF (this 4% payment is called a 'royalty'). In return Fiona receives marketing support and business advice from one of BF's regional managers. The regional manager helped Fiona prepare the draft cash flow forecast that is shown below in Table 2. Fiona will soon have a meeting with the regional manager to discuss methods of promoting the new shop.

Table 2: Cash flow forecast, first 6 months of trading ($000)

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6
Cash in:						
Cash invested	20	0	0	0	0	0
Revenue	8	7	10	9	8	11
Cash out:						
Initial set up costs	20	0	0	0	0	0
Royalty	0	0	0	1	0	0
Employee costs	3	3	3	3	3	3
Purchases	3	3	3	3	3	3
Other payments	4	3	4	3	3	3
Opening Balance	0	–2	–4	–4	–5	–6
Closing Balance	–2	–4	–4	–5	–6	–4

In preparation for the opening of the new shop, Fiona has successfully completed a qualification in flower retailing at her local college. Fiona is aware of recent reports in the media that unemployment in the local area has started to rise. Consumers are expected to reduce their spending on luxury products.

(a) Explain the following terms:

(i) consumer markets (line 4) [3]

(ii) managers (line 9). [3]

(b) **(i)** Fiona has set a promotional budget based on 5% of revenue. Using Table 2, calculate Fiona's promotion budget for the first 6 months of trading. [2]

(ii) Explain **two** suitable promotion methods that Fiona could use for her new shop. [4]

(c) Analyse the benefits to Fiona from preparing the cash flow forecast shown in Table 2. [8]

(d) Evaluate the advantages and disadvantages to Fiona of entering into a franchise agreement with BF. [10]

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