Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

BUSINESS STUDIES **9707/22**

Paper 2 Data Response **October/November 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 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 Popular Presents (PP)

PP is a new business idea that is being developed by Jack Jones, an entrepreneur. PP will be a retail outlet that will sell a wide range of gifts for events such as birthdays and weddings. Each gift purchased will include a free card for the buyer to give along with the gift. PP's unique selling point (USP) will be that Jack plans to offer a free gift wrapping service for each purchase.

Jack needs $45 000 to open PP and this has to pay for renting premises, buying initial inventories and promotional costs. Jack has $10 000 savings and he will need to find a suitable source of finance for the remainder. One of the local banks provides a business start-up advisory service and Jack has an appointment next week. Jack has completed extensive market research and he is convinced that he can attract enough customers. An extract from Jack's draft business plan is included below.

Extract from Jack's business plan – Competitor Analysis

Shop A (sole trader gift shop in the centre of town)
I have compared the product range and prices of several products this shop is selling. An example is a glass vase. It is being sold for $55. This includes engraving the vase[1] with a message such as 'Happy Birthday'. Shop A does not offer a gift wrapping service.

Shop B (specialist gift shop)
This shop sells more expensive gifts which are mainly handmade. A glass vase in this shop is being sold for $125. Shop B does not offer a gift wrapping service.

Jack feels that shop A would be a typical competitor for PP.

Jack's research into suppliers has shown that he can buy vases similar to those sold in shop A for $20 and can arrange for the engraving for an additional $10. He is confident that PP can sell at prices lower than those of shop A and that PP will make a profit within one year. Jack plans to use a penetration pricing strategy; for example, PP will sell the engraved vase for $45.

Jack has already found suitable premises for PP on a busy street in the town. Jack still has some sections of the business plan to complete, including the profit and cash flow forecasts.

(a) Explain the following terms:

(i) unique selling point (line 4) [3]

(ii) cash flow forecast (line 27). [3]

(b) **(i)** Jack hopes to sell 20 vases in PP's first month of trading. Calculate the gross profit he would make. [3]

(ii) Explain **one** disadvantage to PP of using a penetration pricing strategy. [3]

(c) Analyse the reasons why PP could fail to survive in its first year. [8]

(d) Discuss additional suitable sources of finance that Jack could use to start up PP. [10]

[1] *Engraving the vase is the process of permanently writing a message on the glass.*

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2 Kitchen Quality Appliances (KQA)

KQA is a public limited company that has capital intensive production facilities in several countries. KQA produces a range of kitchen appliances including kettles, toasters and microwave ovens. KQA is growing rapidly and, as well as increasing the scale of production to satisfy rising demand, the Product Development Director, Kazim, has undertaken a portfolio analysis. He now plans to develop an additional product, a coffee machine, to add to KQA's product portfolio.

Kazim knows that the growth of KQA is likely to lead to economies of scale. The shareholders are pleased with the growth of the company and the latest financial accounts have just been published. An extract is shown in Table 1.

Table 1: Extract from Balance Sheet as at October 2015

	$000s
Non-current assets	4000
Current assets*	700
Current liabilities	400
Working capital	300
Net assets	4300
*includes inventories	200

Sharon, the Human Resources Director, understands the financial benefits that growth brings to KQA but she is worried about how growth will impact on human resources, particularly in country X. At present country X's human resource managers find it difficult to recruit, select and train the required number of skilled employees to meet production targets. As a result, a decline in quality has become an issue in one of the factories in country X. Sharon has been asked to undertake workforce planning for all of KQA's human resource needs in country X for the next three years.

(a) Explain the following terms:

(i) portfolio analysis (lines 4–5) [3]

(ii) shareholders (line 7). [3]

(b) **(i)** Refer to Table 1. Calculate the acid test ratio. [3]

(ii) In 2014 the acid test ratio was 0.85:1. Using your answer to **(b)(i)**, comment on the implications for KQA of the trend in the acid test ratio over the last two years. [3]

(c) Analyse the economies of scale that KQA could benefit from as it grows. [8]

(d) Discuss the role of human resource management in helping KQA solve the problems it has in country X. [10]

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