Cambridge IGCSE

Cambridge International Examinations
Cambridge International General Certificate of Secondary Education

BUSINESS STUDIES **0450/22**

Paper 2 **February/March 2017**

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1 hour 30 minutes

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READ THESE INSTRUCTIONS FIRST

This Insert contains the case study material.
Anything the candidate writes on this Insert will not be marked.

The syllabus is approved for use in England, Wales and Northern Ireland as a Cambridge International Level 1/Level 2 Certificate.

This document consists of **3** printed pages and **1** blank page.

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Bags and Belts (BB)

BB is a small private limited company. It manufactures leather handbags and belts. It only uses the best quality leather. BB sells the bags and belts using its own brand name to large retailers. BB currently does not use the Internet in its business operations.

The leather used by BB has always been purchased from the same local business since BB was set up. This supplier guarantees high quality leather and has always delivered on time.

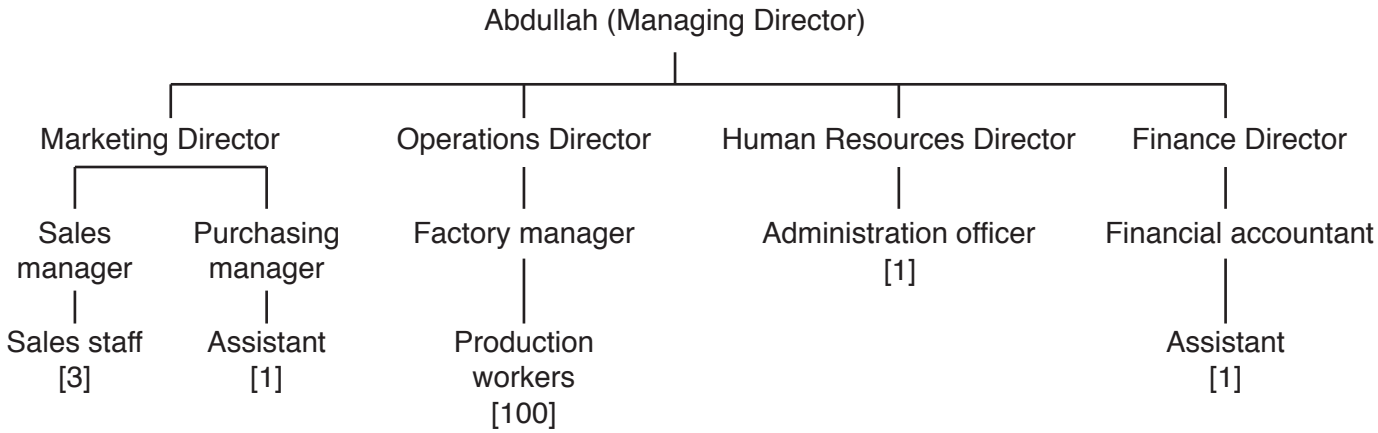
BB was started 35 years ago and is now managed by Abdullah, the grandson of the original owner. The other directors are all members of the family. BB employs workers from the local community to manufacture the handbags and belts.

BB uses batch production. The workers who make the handbags and belts are skilled, but wage costs are kept low by employing young workers to pack the products. The production process has waste materials and these are put into the nearby river. However, local people complain that it affects their drinking water.

The directors want to increase profit. They are thinking of either increasing prices or making some of the handbags out of a material that looks like leather but is much cheaper to buy. The Marketing Director thinks the demand for their handbags is price inelastic as many consumers are loyal to the BB brand.

Appendix 1

Organisation chart for BB



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Appendix 2

From: Abdullah
To: BB directors

I want BB to expand and I am considering the following two options.

Option A:
Sell BB branded handbags to wholesalers. This will allow BB to sell its handbags all over the country. We will need to spend a lot of money on advertising in magazines aimed at people on high incomes. The economy has been growing rapidly and many people now have high incomes.

Option B:
To accept a contract to manufacture luxury handbags for a major global business. This global business will then sell these handbags using its own channels of distribution across the world. The global business has a recognised luxury brand and its handbags sell at very high prices in exclusive shops all over the world. All the workers will need to be skilled and fully trained as the highest quality will be expected. New equipment costing $20 000 will need to be purchased. BB will still make some BB branded handbags.

We must meet to discuss which option you think we should choose.

Appendix 3

Summary of BB balance sheet ($000)

	2015	2016
Non-current assets	100	120
Current assets:		
Inventories	10	40
Cash	10	10
Trade receivables	10	40
Current liabilities:		
Trade payables	40	50
Non-current liabilities:		
Long-term bank loan	80	80

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