Cambridge Assessment International Education

Cambridge Ordinary Level

BUSINESS STUDIES **7115/22**

Paper 2 Case Study **May/June 2020**

INSERT **1 hour 30 minutes**

INFORMATION

- This insert contains the case study.
- You may annotate this insert and use the blank spaces for planning. **Do not write your answers** on the insert.

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Eco Scooters (ES)

ES makes scooters (small motorcycles) which are sold in country Z. ES is a public limited company which was founded 40 years ago. It has grown by taking over other smaller scooter manufacturers. This meant that ES could use the factories and skilled employees of these other businesses. ES is now planning to take over another scooter manufacturing business based in country Z, either company ABC or company FGH. Financial information about these companies is shown in Appendix 1.



Currently ES uses a flow production method with many workers and only a few machines. The work is boring and employees have to work long hours doing the same job. However, wages are calculated by using time rate and this is higher than the legal minimum wage. There are no other financial rewards for the workers.

ES currently has 30% market share in country Z. It is planning to export its products and has drawn up a business plan for this expansion. This plan includes the promotion methods ES is considering for its scooters in export markets. To start exporting, ES will have to increase production. It needs to recruit 100 additional production workers and invest $10m in new technology production machinery. This should ensure higher output as well as higher productivity.

Appendix 1

Financial information (2019) for the two companies ES is planning to take over.

	ABC Company	FGH Company
Revenue	$100m	$400m
Cost of sales	$50m	$160m
Expenses	$40m	$210m
Return on Capital Employed (ROCE)	20%	25%
Current ratio	2	3
Acid test ratio	1	1.5

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Appendix 2

Article in the national newspaper

Main News 10 April 2020

The economy of country Z has grown rapidly over the last 5 years and incomes are high. This has resulted in inflation. The Government is now taking action to stop inflation rising any further. Unemployment has now started to increase. This has been welcomed by some businesses but not all. The demand for luxury products is likely to fall if unemployment continues to rise.

Appendix 3

Email to Managing Director

To: Managing Director

From: Finance Director

Date: 20 April 2020

Re: New laws

The Government has introduced many new laws that will have an impact on ES. These legal controls include those affecting consumer protection, location decisions and environmental protection. We will have to consider how each of these new laws will affect our costs and operations.

Please make sure you have carried out a full analysis of what these changes will mean for ES.

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