UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Ordinary Level

BUSINESS STUDIES **7115/21**

Paper 2 **October/November 2011**

INSERT

1 hour 45 minutes

READ THESE INSTRUCTIONS FIRST

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

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Everyday Suits

Simon owns a business called Everyday Suits. It is a private limited company. The business makes suits for men using batch production. The production workers are paid an hourly wage. They have no fringe benefits, as Simon believes the workers should be happy that they have a job. Simon employs 100 production workers who work on the production of suits. He has 5 employees who help him in the office. There is only one manager who is responsible for Finance. Simon carries out all the other management functions for the business.

The business has grown quickly and profits have also increased rapidly over the last two years. To finance the rapid growth of the business Simon has taken out a large bank loan for $15 000 which is being repaid over 5 years.

Simon wants to continue to expand the business. He wants to increase the range of suits to add to his current range of medium priced suits. There is a lot of competition for medium priced suits and this market segment is not growing. He has identified two other market segments for suits, both of which have increasing demand. However, he is unsure which market segment option to choose.

Option 1:
Start selling expensive suits that are hand made and of high quality material. These suits would be made to measure for each customer and individually designed. The market for these suits is a niche market. He would need to employ more skilled workers.

Option 2:
Start selling low priced suits to the mass market. However, to enter this market Simon will need to invest in machinery to produce suits on a large scale. He could gain from economies of scale which would be an advantage.

Appendix 1

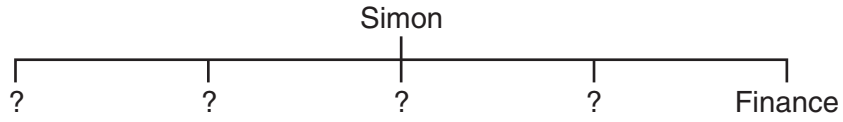
Balance Sheet for Everyday Suits at 31st August 2011 in $

	2011	2010
Fixed Assets		
Equipment	20 000	20 000
Current Assets		
Stock	10 000	5 000
Debtors	30 000	10 000
Cash at Bank	0	5 000
Total	40 000	20 000
Current Liabilities		
Creditors	10 000	20 000
Overdraft	20 000	0
Total	30 000	20 000
Working capital	10 000	0
Net Assets employed	30 000	20 000
Financed by:		
Share capital	10 000	10 000
Profit and loss reserves	5 000	10 000
Bank loan	15 000	0
Capital employed	30 000	20 000

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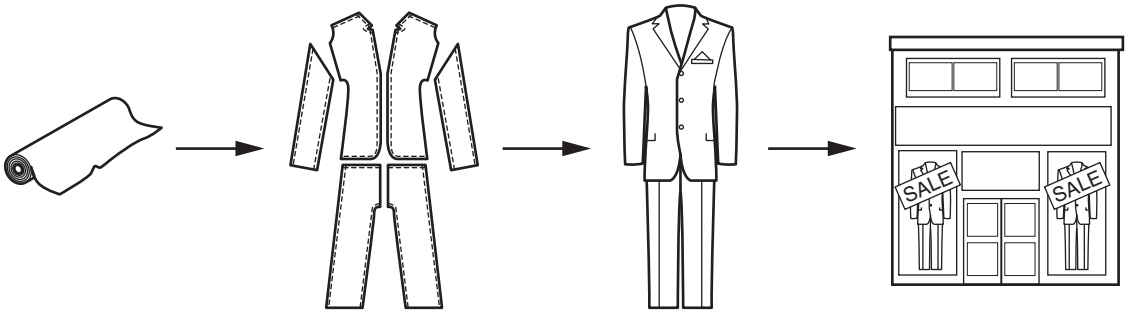
Appendix 2

Proposed Organisation Chart for Everyday Suits



Appendix 3

Added value for Everyday Suits



Rolls of cloth purchased

Cut-out sections for suit

Sections sewn together to make finished suit

Sold to retailers

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