Cambridge
O Level

Cambridge International Examinations
Cambridge Ordinary Level

BUSINESS STUDIES **7115/21**
Paper 2 **October/November 2018**
INSERT **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.

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

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Guardian Toys (GT)

GT is a public limited company. It was set up 50 years ago in country Y. Shareholders were the main source of capital when the business expanded but bank loans have also been used. The company has recently allowed its employees to join a trade union which will have an effect on GT and its employees.

The company manufactures a range of toys for babies and young children below school age. These toys are sold to large toy shops throughout country Y and in other countries. However, the Marketing manager wants to develop online sales. He thinks GT's toys should only be sold using e-commerce, not through retailers. This will help prevent any communication barriers.

The Operations manager thinks that GT needs to reduce average costs to remain competitive in the global market. GT uses batch production to manufacture all the many designs of toys it sells. The Operations manager also thinks that the development of new toys should be changed for the different markets in other countries. Each market needs something different to make the toys a success.

GT buys from suppliers in country Y that it has dealt with for many years. GT uses just-in-time inventory control. The design of the toys has not been changed for a number of years. Sales have fallen over the past 12 months. Prices were increased last year to maintain profit margins.

The Human Resources (HR) manager is worried about low levels of worker motivation and the time taken to negotiate a new wage agreement for the production workers.

Appendix 1

Advertisement for GT



GT - your specialist quality toys. The greatest care goes into the design of each and every one of our many toys. The education and safety of your child are our main priorities. Our toys are available from all good toy shops at competitive prices.

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Appendix 2

Email

To: Marketing manager

From: Operations manager

Date: 1 September 2018

Re: Need to cut costs

As discussed at our last meeting, we need to cut the average cost of making each toy. We could choose cheaper suppliers but this may mean we have to buy from suppliers in other countries. We could change the design of the toys so that we use fewer components (parts) when making the toys.

We have tried to do this with our toy car. We can reduce the number of components from 50 to 40 if we make the main car body out of one piece of plastic rather than several pieces. We could look at many of our other products to see if this is possible. We must be careful that it does not make the toys less attractive to customers.

Appendix 3

Financial and other information for GT and a main competitor

	GT	Main competitor
Annual revenue for latest financial year	$20m	$25m
Increase in sales from previous year	2%	5%
Cost of sales for latest financial year	$5m	$3m
Profit margin	10%	20%
Change in profit margin from previous year	Lower	Higher
Current ratio	1.5	2.5
Acid test ratio	1	2
Number of different designs of toys	200	100

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