Cambridge Assessment International Education

Cambridge O Level

BUSINESS STUDIES **7115/21**

Paper 2 Case Study **October/November 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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Gemma's Jewels (GJ)

Gemma set up GJ as a sole trader 5 years ago in country Z. She started by selling rings and bracelets from a rented shop. She used her own savings to start the business. The first year was successful. After this first year Gemma decided to expand by selling more expensive items of jewellery. Gemma thinks it is important to set clear business objectives. She wants her business to increase sales by 10% each year and to increase market share.



As the business grew Gemma needed more finance for a computer, inventory and working capital to avoid liquidity problems. She decided to convert the business to a private limited company and sell shares to members of her family. Gemma still owns more than 50% of the shares in GJ.

In 2019, Gemma purchased a franchise from Beautywise Jewellery. This means GJ is now only able to sell Beautywise products in its shop. GJ has to purchase all of its inventory from Beautywise and in addition pay 20% of gross profit to Beautywise. More details about the franchise are in the advertisement in Appendix 1.

Gemma has developed a website so customers can order online. Customers can also download a mobile (cell) phone app to view and order jewellery.

Gemma plans to open a second shop as a Beautywise franchise in a nearby town. She has to decide which method of sales promotion to use. GJ needs to recruit a manager for the new shop. The manager will be responsible for operating the shop and making most of the decisions about which items of inventory to buy. The manager will also need to ensure excellent customer service is provided and that the new employees are motivated and working efficiently.

Appendix 1

Advertisement for Beautywise Jewellery Franchise

Become a franchisee to sell Beautywise Jewellery and improve your chances of success!!

What we offer you:

- Be the only shop in your area that sells Beautywise jewellery
- Beautywise will advertise nationally on television and in newspapers
- Help and advice on decoration of the shop and training for employees and the franchisee
- Ethically sourced jewellery imported especially for Beautywise
- The franchise fee is just $50 000 per year!

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Appendix 2

Newspaper article- Daily News

External factors affecting the jewellery market in country Z

The demand for jewellery in country Z is likely to be affected by some recent changes. Consumers are becoming more aware of the ethical issues involved in jewellery production in some countries. The exchange rate of the currency of country Z is likely to depreciate over the next 12 months. The Government is planning changes to tax rates which might reduce the effects of the current economic boom.

Appendix 3

Information on three possible locations for the new shop

Annual costs	**Town A**	**Town B**	**Town C**
Shop rent	$45 000 per year for 5 years	$35 000 per year for 10 years	$20 000 per year for 15 years
Wages and salaries	$80 000	$70 000	$60 000
Heating and lighting	$5 000	$5 000	$3 000
Estimated gross profit	$400 000	$300 000	$200 000

Note: Franchise fee is $50 000 per year and 20% of gross profit is paid to Beautywise.

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