Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

BUSINESS **9609/22**

Paper 2 Data Response **February/March 2017**

1 hour 30 minutes

No Additional Materials are required.

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READ THESE INSTRUCTIONS FIRST

An answer booklet is provided inside this question paper. You should follow the instructions on the front cover of the answer booklet. If you need additional answer paper ask the invigilator for a continuation booklet.

Answer **all** questions.
The businesses described in this paper are entirely fictitious.

The number of marks is given in brackets [ ] at the end of each question or part question.

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

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CAMBRIDGE
International Examinations

1 **Gourmet Ices (GI)**

GI is a partnership owned by Tom and Amy Smith. The business makes and sells high-quality ice cream. At present the ice cream is only sold through businesses near to GI, but the owners would like to expand the business and sell ice cream throughout the country.

The ice cream is handmade in small batches. GI employs five skilled workers who make the ice cream. Labour costs account for over half of the direct costs of the business. Tom believes that it will be necessary to use Computer Aided Manufacturing (CAM) to increase production and decrease costs so that GI can sell throughout the country (see Table 1). However, Amy is worried that the quality of the ice cream may decrease.

Table 1: Estimated production costs and revenue data

	Without CAM	With CAM
Variable costs (per unit)	$1.50	$1.00
Total fixed costs each month	$5000	$15 000
Revenue (per unit)	$2.50	$2.50
Estimated output each month	7500 units	25 000 units

Tom and Amy would need to raise $50 000 of additional finance to expand GI. They have researched crowd funding and venture capital as possible sources of finance. Tom and Amy have decided that they would prefer to use venture capital. They are considering two offers from venture capitalists.

Offer 1: Amit
The offer is for $50 000 and Amit would want 51% ownership of the business. Amit owns a nationwide supermarket chain and would be willing to stock the ice cream in all of the supermarkets if his offer is accepted. He also has a lot of marketing experience.

Offer 2: Rebecca
The offer is for $50 000 and Rebecca would want 30% ownership of the business. Rebecca owns a clothes manufacturing factory and she has knowledge of using CAM. She is very experienced with operations and project management and she believes that she can further reduce the costs of the business and increase the profit margin.

(a) **(i)** Define the term ‘partnership’ (line 1). [2]

(ii) Briefly explain the term ‘crowd funding’ (line 16). [3]

(b) **(i)** Refer to Table 1. Calculate the break-even level of production **with** CAM. [3]

(ii) Explain **one** benefit to GI of using break-even analysis. [3]

(c) Analyse **two** possible disadvantages to GI of introducing CAM to produce ice cream. [8]

(d) Recommend which one of the two venture capital offers Tom and Amy should accept. Justify your answer. [11]

2 Clean and Tidy (CT)

CT is an employee-owned business that specialises in cleaning homes. The homes are cleaned during the day whilst the homeowners are at work. There are nine employees, each of whom owns an equal share of the business. CT cleans 50–60 homes each week. Most customers have been using CT for many years. There has been no sales growth for the past 12 months and the profit margin is decreasing.

CT has tried to increase revenue by lowering the price of its services (see Table 2).

Table 2: Sales data

Price per hour	Weekly sales (number of homes cleaned)
$8	50
$6	55

CT promotes its cleaning services using above the line promotion methods. New customers contact the business through its website or by telephone.

In a recent meeting of all the owner-employees, someone suggested the business move into the industrial market for cleaning. This would include cleaning offices and factories during the night. The marketing mix for CT would need to be changed significantly to attract customers in the industrial market.

(a) **(i)** Define the term 'profit margin' (line 5). [2]

(ii) Briefly explain the term 'above the line promotion' (line 12). [3]

(b) **(i)** Refer to Table 2. Calculate the price elasticity of demand for a change in price from $8 to $6 per hour. [3]

(ii) Explain **one** way in which CT could make use of price elasticity of demand calculations. [3]

(c) Analyse **one** advantage and **one** disadvantage to CT of being an employee-owned business. [8]

(d) Discuss how CT's marketing mix might need to change to target customers in the industrial market. [11]

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