Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

BUSINESS **9609/22**

Paper 2 Data Response **October/November 2016**

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.

CAMBRIDGE International Examinations

1 Pampered Pets (PP)

PP is a chain of shops that sells pet food and accessories. Most of the shops are franchises. This has allowed PP to grow rapidly over the past three years.

John is thinking of becoming a franchisee of PP. John has recently suffered redundancy from his long term job in a factory producing pet food. He does not have any experience in managing a business but his brother has been a shop manager and may be willing to work with John.

A franchise with PP requires start up capital of $50 000. However, PP provides all the advertising, branding, signs and fittings for the shop. John will require appropriate sources of finance to be able to afford this start up cost as well as some working capital.

Another option for John is to open an independent pet shop. This will require start up capital of $10 000. To help him make his decision, John has completed some research into both options.

Table 1: John's research

	PP franchise shop	Independent shop
Brand recognition	High	None
Estimated advertising costs (in first year)	$0	$10 000
Other costs (including cost of sales)	$40 000	$25 000
Allocation of total profit	25% to be paid to PP 75% retained by John	100% retained by John
Number of employees needed	3	3
Estimated revenue (in first year)	$60 000	$40 000
Profit received by John	**X**	$5 000

(a) **(i)** Define the term 'redundancy' (line 3). [2]

(ii) Briefly explain the term 'working capital' (line 9). [3]

(b) **(i)** Refer to Table 1. Calculate the value of X. [3]

(ii) Briefly explain why the revenue of an independent shop is likely to be less than a PP franchise shop. [3]

(c) Analyse **two** possible sources of finance that John could use to finance the opening of a PP franchise. [8]

(d) Recommend whether John should open a PP franchise or an independent shop. Justify your view. [11]

2 Fire Fly Ebooks (FFE)

FFE is a manufacturer of electronic book readers (e-readers). The product is used to read electronic books which are sold by other businesses. FFE's product is a simple and inexpensive e-reader with a retail price of between $20 and $30. FFE sells each e-reader to retailers for $10.

There are many competitors in the market and FFE has calculated the price elasticity of demand to be very elastic. There are similar products on the market and FFE must try to maintain a Unique Selling Point (USP) for its product. In the past the USP has been its low price; but, as more brands become available, extra features have become more important. These features include: built-in lights, speakers for audio books and voice control to change page. FFE does not currently offer any extra features in its product.

FFE has received an order from a new retailer. This order is to be delivered in Month 2. The retailer wants two months to pay in Month 4, so that it has chance to sell the e-readers before paying FFE. This might cause FFE cash flow problems. FFE has produced a cash flow forecast which includes the new order.

Table 2: Cash flow forecast for FFE

	Month 1 ($)	Month 2 ($)	Month 3 ($)	Month 4 ($)
Cash inflows:				
Cash sales	10 000	10 000	10 000	10 000
Trade receivables	2 000	2 000	2 000	15 000
Total cash in	12 000	12 000	12 000	25 000
Cash outflows:				
Factory rent	2 000	2 000	2 000	2 000
Cost of sales	8 000	16 000	8 000	8 000
Insurance*	12 000	0	0	0
Electricity**	3 000	0	0	3 000
Total cash out	25 000	18 000	10 000	13 000
Opening balance	10 000	(3 000)	(9 000)	(7 000)
Closing balance	(3 000)	(9 000)	(7 000)	**Z**

*Insurance is paid once a year
**Electricity is paid once a quarter (every three months)

(a) **(i)** Define the term 'brand' (line 8). [2]

(ii) Briefly explain the term 'price elasticity of demand' (lines 5–6). [3]

(b) **(i)** Refer to Table 2. Calculate the value of Z. [2]

(ii) Explain **two** advantages to FFE of accepting the order from the new retailer. [4]

(c) Analyse the importance of **two** elements of the marketing mix to FFE. [8]

(d) Discuss how FFE could improve its forecast cash flow. [11]

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