

CAMBRIDGE INTERNATIONAL EXAMINATIONS

General Certificate of Education Advanced Subsidiary Level

BUSINESS STUDIES

8707/2

PAPER 2 Data Response

OCTOBER/NOVEMBER SESSION 2001

1 hour 30 minutes

Additional materials:
Answer paper

TIME 1 hour 30 minutes

INSTRUCTIONS TO CANDIDATES

Write your name, Centre number and candidate number in the spaces provided on the answer paper/answer booklet.

Answer **all** questions.

Write your answers on the separate answer paper provided.

If you use more than one sheet of paper, fasten the sheets together.

INFORMATION FOR CANDIDATES

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

The businesses described in this paper are entirely fictitious.

You are reminded of the need for good English and clear presentation in your answers.

This question paper consists of 3 printed pages and 1 blank page.



1

Kiplagat Garden Enterprises

Joe Kiplagat owns a gardening business. He is well known in his local area for offering to dig and maintain gardens and lawns. His prices are lower than those of his main competitors. He has known many of his customers for many years and he is reluctant to increase his prices to them. His only form of sales promotion is to distribute leaflets and discount offers once a year to all houses in his town. 5

Newtown, where Joe lives, is growing quickly. Many people from the nearby city are choosing to live there. Several large houses are being built with huge gardens. Joe has been talking to one of the builders who has given him an idea for his business. He remarked that there was probably a great need not just for gardeners but specialist garden designers who could plan and construct beautiful landscaped gardens for these new houses. 10

This has set Joe thinking. He studied garden design at college many years ago. He would like to put these skills to good use but it would mean employing other people to do the hard digging. Joe has always worked on his own. He would need to buy a computer and train himself to use it. All new designs could be shown to houseowners on a screen and adapted easily to meet their needs. 15

Joe realises that this new direction for his business would involve a change from mass marketing to niche marketing. He has decided to do some market research before going ahead with the plan. He might have to give up his regular customers but he believes he could make higher profit margins from this new line of work.

(a) Define the following terms:

(i) Sales promotion (line 4) [3]

(ii) Mass marketing (lines 16–17). [3]

(b) Explain **two** management functions that Joe would have to perform if he expanded the business. [6]

(c) Examine the methods Joe could use to research the market for his garden design service. [8]

(d) Assuming that the market research results are positive, would you advise Joe to go ahead with the expansion plan into garden design? Give reasons for your answer using all of the evidence in the case. [10]

“So Good” Soft Drinks Ltd.

The Chief Executive of “So Good” Soft Drinks Ltd. was most disappointed with the latest published accounts for the company. An extract of these is shown below:

	2000 (\$000)	2001 (\$000)	
Sales Turnover	150	180	5
Gross Profit	30	20	
Overhead Expenses	15	18	
Net Profit	15	2	

“In one year our profitability has fallen to very low levels” he remarked at the meeting of the Board of Directors. “If only I had rejected the advice of my Marketing Manager when she said that lowering our prices would lead to a more successful business. Our sales have risen but our profits have declined!” 10

The Operations Manager was very angry too. Last year, he had suggested that instead of an expensive marketing campaign to advertise lower prices, money should be spent in the production department. He had suggested replacing the current batch production methods with flow production. He had argued that this could lead to lean production including the use of Just In Time stock control methods. “We cannot reduce our prices unless we make productivity improvements first” he had said last year. The Chief Executive looked at the latest results and wondered if the Operations Manager had been right after all. 15

(a) Define the following terms:

(i) Gross Profit (line 6) [3]

(ii) Batch production (line 15). [3]

(b) (i) Calculate, for both years, the gross profit margin of the business. [3]

(ii) Explain how a reduction in prices might have led to an increase in sales revenue yet lower profits. [5]

(c) Examine the factors the business should consider before changing to a method of flow production. [6]

(d) Discuss and recommend a marketing mix that a soft-drink manufacturer could use to increase sales profitably in your own country. [10]

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