Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

BUSINESS **9609/22**

Paper 2 Data Response **May/June 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 question 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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1 Scented Candles (SC)

SC has been trading for one year. SC is a sole trader business owned by Jane. SC produces and sells a range of luxury scented candles. The business is operated from a shop in a town where there are several competitors. However, employment in the local area is rising and average incomes are increasing.

Jane did not carry out market research before starting SC. In the first year she set a very small budget for promotion spending. Jane has found it difficult to decide on an effective pricing strategy for the candles. Revenue has been 15% less than expected. Jane knows that consumers have to consider opportunity cost when deciding what to buy.

Three months ago Jane decided to reduce the selling price of one type of candle, Candle A. She hoped this would increase the demand for this product. Table 1 shows the effect of this price change.

Table 1: Data for Candle A

	Sales (units) per month	Price
Before change	500	$5
After change	750	$4

Jane is ambitious and is keen to plan the future of the business. She has achieved her original objective which was survival of the business in its first year. Jane now thinks it is necessary to reconsider SC's business objectives for the future. She is also keen to develop a website for e-commerce.

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

(ii) Briefly explain the term 'market research' (line 5). [3]

(b) **(i)** Refer to Table 1. Calculate the price elasticity of demand for Candle A when the price is reduced from $5 to $4. [3]

(ii) Explain **one** benefit to SC from using price elasticity of demand when making pricing decisions. [3]

(c) Analyse why SC's objectives might change over time. [8]

(d) Recommend an effective marketing mix for SC's second year of trading. Justify your answer. [11]

2 Mackintosh Shoes (MS)

MS is a private limited company that manufactures shoes. It uses labour intensive production methods in its two factories. MS is a family owned and operated company. MS has been trading for twenty years. It has grown significantly over the last ten years, almost doubling production during that period. The family has recently rejected an offer to sell the business to a large multinational shoe manufacturer.

MS produces and sells a range of shoes that is sold in both business markets and consumer markets. MS is facing significant challenges. Katrina, the Managing Director, has been examining the following information.

Table 2: Summary data for MS

	2013	2014	2015
Revenue (millions)	$1.92	$1.56	X
Average price (per pair of shoes)	$16	$12	$10
Production (pairs of shoes)	120 000	130 000	140 000
Finished goods inventory at end of year (pairs of shoes)	0	0	20 000
Labour productivity (pairs of shoes per worker)	4 000	3 700	3 500

Katrina knows that MS is not competitive as unit costs are too high. Labour turnover has been rising. Training is not as effective as it should be. Most competitors use capital intensive production methods.

Katrina is considering a proposal that could help secure the long term future of MS. This would be to enter into a joint venture to open a new factory to manufacture shoes. This will require investment in capital equipment costing $5m. There will be redundancies in the existing factory.

(a) **(i)** Define the term 'redundancies' (line 23). [2]

(ii) Briefly explain the term 'joint venture' (line 22). [3]

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

(ii) Explain the likely impact on MS of the fall in the average price of shoes. [4]

(c) Analyse the disadvantages to MS of using a labour intensive production process. [8]

(d) Discuss the sources of finance MS could use if the joint venture proposal is agreed. [11]

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