Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

BUSINESS STUDIES **9707/21**

Paper 2 Data Response **May/June 2015**

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 **5** printed pages, **3** blank pages and **1** insert.

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1 Best Books (BB)

BB is a private limited company. BB publishes textbooks for schools and colleges. Internal growth has been a major factor in BB's success. BB's current marketing mix is based on the quality of the books and personal selling – sales staff visit schools to build personal contacts. The books are expensive but students like their clear and simple style.

For the first time in many years BB's annual revenue has fallen. Pam, BB's Marketing Director, believes this is because schools have less money to spend; students use the Internet more for relevant information; there are new competitors in the market.

BB has developed e-books. These are versions of books downloaded from the Internet and include interactive facilities such as exercises, tests and worked answers. BB plans to launch these books next year. Students will buy the e-book at a very low price and then pay a subscription to use additional online resources. These resources would be continuously updated. The e-books will gain the usual benefits of e-commerce as well as being produced at a lower cost than printed textbooks.

Anwar, the Finance Director, has produced forecasts to show the likely change to BB's liquidity resulting from introducing e-books.

Table 1: Extract from BB's forecast balance sheet for the year ending June 2016 ($million)

	Without e-books	With e-books
Inventories	50	10
Cash	10	10
Trade receivables	10	10
Trade payables	35	30
Forecast current ratio	2.0	?

Employees at BB and the authors have heard rumours about the likely changes. Employees involved in printing and the distribution of the books fear losing their jobs. Some authors want to stay with writing traditional textbooks.

Ling, the Managing Director, believes that a new director is needed to manage e-books. Her choice for internal recruitment to this new post is between George and Beryl.

Table 2: Skills and attributes of George and Beryl

George	Beryl
• Experience in Operations Management • Autocratic leader • Task oriented • Gets things done • Experience of managing printing employees • Recognizes need for change	• Experience in commissioning new books • Democratic leader • Highly respected • Works well with authors • People oriented • Looking for career development and challenges

(a) Explain the following terms:

(i) internal growth (lines 1–2) [3]

(ii) internal recruitment (line 28). [3]

(b) Refer to Table 1.

(i) Calculate the forecast current ratio **with** e-books. [3]

(ii) Comment briefly on the difference between the liquidity forecasts, with and without e-books. [3]

(c) Using Table 2, analyse factors that Ling should consider when choosing between George and Beryl as the new director to manage e-books. [8]

(d) Recommend an appropriate marketing mix for the launch of BB's new e-books. Justify your answer. [10]

2 Tangerine Tablets (TT)

TT is a public limited company. TT manufactures tablet computers (hand-held computers). TT's long term business objective is to become the market leader. In order to achieve this objective TT will have to change from supplying small niche markets, such as schools, to having a large market share by targeting the mass tablet market. To help achieve the long term objective TT will need to cut unit costs in the medium term. Improved efficiency and greater production flexibility will be needed in the short term.

TT is investing in a new production line. TT's forecast cash flow for the next four quarters **without** the new production line is shown in Table 3.

Table 3: Forecast cash flow for the next four quarters without new production line ($m)

	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Opening balance	200	300	500	800
Cash inflows	500	600	700	800
Cash outflows	400	400	400	400
Closing balance	300	500	800	1200

The new production line will require an additional cash outflow of $500m in quarter 1, and this will lead to additional cash inflows of $200m per quarter in quarters 2, 3 and 4.

Taziq, the Production Manager, believes that operational efficiencies can be gained, in the short term, through improved inventory control. At the moment inventory levels are determined by sales made 12 months earlier. Taziq has produced the following information on inventories to help him identify improved methods of inventory control.

Table 4: Information on inventories held at TT (end year 2014)

Product	Price	Sales	Inventory levels	Demand	Cost and speed of meeting an increase in demand
Tablets for schools	Low	Medium	6 weeks of sales	Predictable	Cheap and quick
Tablets with small screens	Medium	High	1 week of sales	Unpredictable	Medium cost and quick
High specification tablets	High	Low	10 weeks of sales	Unpredictable	Expensive and slow

(a) Explain the following terms:

(i) market share (line 4) [3]

(ii) efficiency (line 5). [3]

(b) **(i)** Assume TT invests in the new production line. Calculate the new closing balance for quarter 4, using Table 3 and other relevant information. [3]

(ii) Explain the usefulness to TT of cash flow forecasting. [3]

(c) Analyse the benefits to TT of setting business objectives for the short, medium and long term. [8]

(d) Using Table 4 recommend improvements to TT's inventory control. Justify your answer. [10]

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