

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Subsidiary Level and Advanced Level

BUSINESS STUDIES

9707/02

Paper 2 Data Response

October/November 2004

Additional Materials: Answer Booklet/Paper

1 hour 30 minutes

READ THESE INSTRUCTIONS FIRST

If you have been given an Answer Booklet, follow the instructions on the front cover of the Booklet.
Write your Centre number, candidate number and name on all the work you hand in.
Write in dark blue or black pen on both sides of the paper.
Do not use staples, paper clips, highlighters, glue or correction fluid.

Answer **all** questions.

At the end of the examination, fasten all your work securely together.

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

The businesses described in this question paper are entirely fictitious.

1

Baljir the Builders

The Government has decided to build low cost housing and shops on the site of a disused factory. It has contacted local building firms who might be interested in doing this work.

Baljir, the sole owner of Baljir the Builders, is wondering whether to apply for the contract. Currently, Baljir concentrates on building one luxury house at a time with 5 employees and a supervisor. Baljir knows that the Government contract will increase capacity utilisation of his business. However, the profit margin per house will be lower than for luxury houses. The small size of the business means that the organisational structure has been simple. Baljir and the supervisor deal with problems when they arise. Baljir knows that if they win the contract his business will expand quickly. This will mean employing many more staff, changing the organisational structure and raising more capital.

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Baljir is concerned at the short time period allowed for the contract. The Government wants the job completed in 25 weeks. Baljir's estimates of durations for each activity of the contract are shown on the network diagram in Fig. 1.

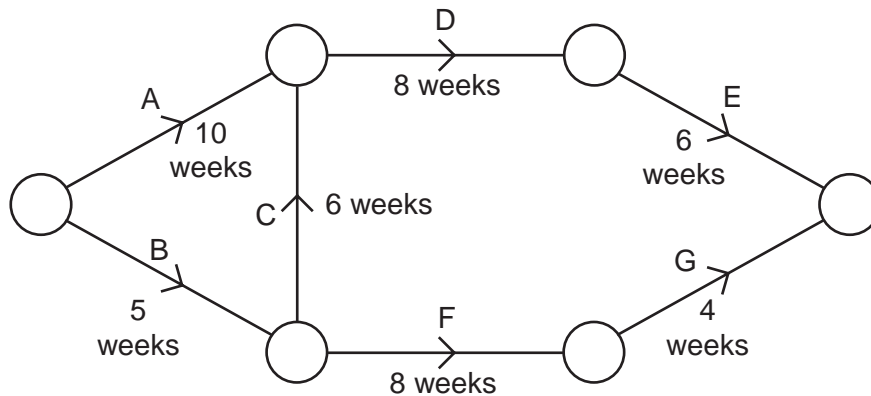


Fig. 1 The Network Diagram

(a) Explain the following terms:

(i) profit margin (line 6) [3]

(ii) organisational structure (line 7). [3]

(b) Using the network diagram in Fig. 1:

(i) identify the critical path and project duration, [2]

(ii) explain the significance of the critical path for Baljir. [4]

(c) Discuss the likely objectives of the stakeholders in Baljir's business. [8]

(d) Examine the problems that Baljir might experience from expanding the business. [10]

2

Riteon Clothes Ltd.

Riteon Clothes Ltd. manufactures work clothes and shoes for use in factories and on building sites. Jennifer, the Marketing Director, has noticed that some of Riteon's products, mainly shoes and overalls, are becoming fashion items for young men and women. She wonders whether this is a new market for the business to consider entering.

The company is maintaining market share, even though sales are falling. This is mainly due to a recession in the construction industry, which is its main market. Riteon's management are worried about the low level of capacity utilisation. Increased direct costs and overheads have reduced Riteon's profits as the following extract from the accounts shows:

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Table 1 Extract from Riteon's Accounts (\$million)

	2002	2003
Sales	100	95
– Direct costs	60	62
<hr/>		
Gross Profit	40	33
– Overheads	30	31
<hr/>		
Net Profit	10	2

Jennifer has undertaken some research into the fashion market for young people's clothes. She asked about 10 of her colleagues at work. She found that the young spend a higher proportion of their income on clothes than any other age group. From a recent newspaper article Jennifer discovered that the fashion clothing business is very risky. Sales growth is currently very high. She is keen to find out much more, so that she can make a case for entering the fashion market.

(a) Explain the following terms:

- (i)** capacity utilisation (line 7) [3]
- (ii)** direct costs (line 7). [3]

(b) (i) Capital employed is \$40 million for both years. Calculate the return on capital employed for both 2002 and 2003. [3]

(ii) Briefly comment on your results. [3]

(c) Discuss sources of information that might help Jennifer to make a decision about whether to enter the fashion market. [8]

(d) Assuming Riteon decides to enter the fashion market, evaluate a possible marketing strategy the company could use. [10]

