Cambridge International AS & A Level

Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

BUSINESS **9609/22**

Paper 2 Data Response **February/March 2019**

1 hour 30 minutes

No Additional Materials are required.

2326134793

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

DC (JP) 161890/2

Cambridge Assessment International Education

1 Jim's Farm (JF)

JF is a private limited company which owns a farm. It produces crops including maize and sunflower seeds. The crops are sold to manufacturers that produce cooking oils for supermarkets. Jim is worried as the price JF receives for its crops is falling. JF is only paid four times a year when the crops are ready, so cash flow is poor.

Sam, Jim's son, has recently completed a management degree at university. He is worried that the farm will not reach its break-even point if the price continues to fall. He has researched ways his father could increase the value added to the crops.

Sam has identified that healthy eating is a growing trend. He has created a plan for the business which considers two options, shown in Table 1.1. Sam has identified that supermarkets would buy most of the new products and he could also sell them to independent retailers.

Table 1.1: Options for the future of JF

	Option 1	Option 2
Product	Healthy snacks	Healthy cooking oil
Market type	Mass	Niche
Start-up capital ($000)	100	75
Annual expenses ($000)	50	35
Annual cost of goods sold ($000)	60	75
Forecast annual market growth	10%	15%
Forecast annual sales	300 000 units	100 000 units
Proposed price per unit	$0.50	$2.00

Figs. 1.1 and 1.2 show extracts from articles about the two options.

> Healthy eating campaigns in schools are changing the way that young people snack and the sales of 'healthy snacks' made from nuts and seeds are growing. Healthy eating is rapidly becoming an important social issue and for some consumers, quality is more important than price.

Fig. 1.1: The rise of the healthy eating campaign

> Business analysts are excited about the potential profitability of premium cooking oils, which offer a healthy alternative to traditional products. High income consumers are prepared to pay high prices for healthy oils made by small independent producers.

Fig. 1.2: Future demand for healthy cooking oil

(a) **(i)** Define the term 'break-even' (line 6). [2]

(ii) Briefly explain the term 'value added' (line 7). [3]

(b) **(i)** Calculate JF's forecast gross profit margin for Option 1. [3]

(ii) Explain **one** reason why JF might aim for a high gross profit margin. [3]

(c) Recommend which option Jim should choose using the information in the case study. Justify your view. [11]

(d) Analyse **two** suitable sources of finance JF could use for the option you have chosen in **1(c)**. [8]

2 Sadiq's Social Restaurant (SSR)

SSR is a small social enterprise located in a low-income inner city area. SSR employs young people who have not been successful at school. It aims to teach them valuable work skills and to help them gain qualifications, so that they have more chance of getting full-time employment elsewhere.

SSR's customers are very supportive of this social enterprise. They are willing to accept a slower service and a simpler menu in exchange for the chance to help disadvantaged young people gain qualifications. The current average price for a meal at his restaurant is $5.50, which is lower than local competitors.

Sadiq, who manages SSR, wants to increase its size by opening a second restaurant so that he can help more young people. He relies on local schools and colleges to recommend young people for his enterprise. He has been told that there would be government grants available to pay for induction and training.

Sadiq has identified two possible locations that he can rent for the second restaurant. Start-up capital would be from retained earnings and an overdraft facility from his bank.

Table 2.1 shows forecast data about each of the locations.

Table 2.1: Forecast data for each location

	City centre	Edge of city
Start-up capital costs	$5000	$10 000
Monthly fixed costs	$1000	$375
Average cost of ingredients (per meal)	$1.50	$1.50
Other variable costs (per meal)	$2.25	$1.30
Expected number of customers (per month)	1000	750

Table 2.2 shows additional information taken from Sadiq's research.

Table 2.2: Additional information for each location

City centre	Edge of city
• Previously used as a restaurant • A range of other restaurants nearby • No parking facilities	• Previously a non-food shop but has permission to convert to a restaurant • No other competition • Large car park

(a) **(i)** Define the term 'induction' (line 12). [2]

(ii) Briefly explain the term 'social enterprise' (line 5). [3]

(b) SSR uses cost-based pricing to add 60% to variable costs when pricing each meal.

(i) Refer to Table 2.1. Calculate the average price of each meal in the proposed **city centre** restaurant. [3]

(ii) Briefly explain **one** advantage to SSR of using cost-based pricing. [3]

(c) Analyse **two** possible impacts on stakeholders of SSR if the second restaurant is successful. [8]

(d) Recommend which location SSR should choose for its second restaurant. Justify your recommendation. [11]

BLANK PAGE

BLANK PAGE

BLANK PAGE