Cambridge Assessment International Education

Cambridge International AS & A Level

BUSINESS **9609/22**

Paper 2 Data Response **February/March 2020**

1 hour 30 minutes

You must answer on the enclosed answer booklet.

You will need: Answer booklet (enclosed)

INSTRUCTIONS

- Answer **all** questions.
- Follow the instructions on the front cover of the answer booklet. If you need additional answer paper, ask the invigilator for a continuation booklet.

INFORMATION

- The total mark for this paper is 60.
- The number of marks for each question or part question is shown in brackets [ ].

This document has **4** pages. Blank pages are indicated.

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1 Bob's Furniture (BF)

Bob is a carpenter who uses job production to make furniture using premium materials. Each item of furniture is priced using cost-based pricing with a 50% mark-up. He is a sole trader. Due to poor economic activity in country X, Bob has fewer customers for his designs. To keep his cash flow positive he is considering two different options. Both options have an opportunity cost.

Option 1: Make garden benches.
Bob is thinking about making garden benches from lower quality materials. Customers will be able to customise some elements of the bench, such as colour. The bench would be delivered to their home. Promotion of the benches would take place at craft fairs and markets.

Option 2: Make small wooden ornaments.
Bob has noticed other businesses selling lots of low-priced small wooden ornaments. Bob could produce similar ornaments, using the premium wood left over after making his job-produced furniture.

Table 1.1: Financial summary of the two options

	Option 1 Garden benches	Option 2 Ornaments
Cost of raw materials ($ per unit)	50	5
Transportation costs ($ per unit)	25	0
Cost of labour ($ per unit)	25	1
Forecast sales (units per month)	5	40

Whichever option Bob chooses, he will continue to use cost-based pricing and make premium furniture when customers demand it.

(a) **(i)** Define the term 'job production' (line 1). [2]

(ii) Explain the term 'opportunity cost' (line 4). [3]

(b) **(i)** Refer to Table 1.1. Calculate the forecast profit margin for option 1. [4]

(ii) Explain **one** way in which Bob could increase the forecast profitability of option 1. [2]

(c) Analyse **two** benefits to Bob of using cost-based pricing. [8]

(d) Refer to Table 1.1 and any other relevant information. Recommend which of the two options Bob should choose. Justify your recommendation. [11]

2 Joe's Smoothies (JS)

Joe graduated with a Business degree. He then spent a year travelling around Asia. He discovered a local drink. This was a fruit smoothie, with added nuts and seeds for protein, that many people drank instead of a meal. When he returned home to country Y he found no suppliers of this type of product.

Joe is considering setting up a small café producing smoothies to supply this potential new market segment. It would be called 'Joe's Smoothies'. This would be possible with a low level of start up capital. This is important as he has no savings. He created a business plan with estimated costs (Table 2.1) and estimated demand and average selling price (Table 2.2). This data was based on a sole trader business in one location. Looking at the data, Joe thought that the business would be low risk and had the potential for national expansion.

Table 2.1: Estimated cost information ($)

	Spring	Summer	Autumn	Winter
Capital Investment	2000			
Fixed costs	10000	10000	10000	10000
Average variable cost	2.50	2.00	2.50	3.00

Table 2.2: Estimated demand and average selling price (with no market research)

	Spring	Summer	Autumn	Winter
Demand (units sold)	1000	3500	1500	500
Average selling price	$3.50	$6.00	$3.50	$2.50

Before opening Joe's Smoothies, Joe approached a business adviser who asked him about his market research. Joe had not done any. The business adviser suggested it would be a good idea to do some primary market research to collect information about his target market and potential demand.

(a) **(i)** Define the term 'market segment' (lines 5–6). [2]

(ii) Explain the term 'start up capital' (lines 6–7). [3]

(b) **(i)** Refer to Table 2.1 and Table 2.2. Calculate the break-even level of sales for JS in the summer. [2]

(ii) Explain **two** factors which may influence the demand for Joe's product. [4]

(c) Analyse **two** methods of primary market research that Joe could use. [8]

(d) Discuss sources of finance Joe could use to start up his business. [11]

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