

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 2006

1 hour 30 minutes

Additional Materials: Answer Booklet/Paper

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.
Do not use staples, paper clips, highlighters, glue or correction fluid.

Answer **all** questions.

The businesses described in this question paper are entirely fictitious.

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.

This document consists of **4** printed pages.



Hilltop Services

Farad owns Hilltop Services (HS), a petrol station that also carries out car repairs. Farad operates HS as a sole trader. Farad wanted to increase sales of petrol. In 2005 he reduced prices by 5% and sales of petrol increased from 20 to 24 million litres.

Farad currently employs 3 full-time staff (2 mechanics for repairing cars and 1 person for petrol sales). 4 part-time staff work on a sharing system to help with the petrol sales. Farad is a good employer, using a democratic leadership style. His employees are all hard working and loyal, and they want the business to succeed. The mechanics are highly skilled. 5

Many of HS's customers come from a large housing development nearby. Some of these customers have suggested that he opens a shop on the site, as the nearest shops are in the city centre. This would mean closing the car repair part of the business and converting the building used for car repairs into the shop. The shop will need a manager. The part time sales staff will have two jobs, selling petrol and selling in the shop. This would mean large increases in their working hours. 10
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If Farad can stock the shop with the right consumer products, it is likely to make a high profit.

- (a) Explain the following terms:
- (i) sole trader (line 2) [3]
 - (ii) democratic leadership style (line 7). [3]
- (b) (i) Using data from the case calculate the price elasticity of demand for Farad's sales of petrol. [3]
- (ii) Comment on your answer to (b)(i). [3]
- (c) Analyse the human resource management issues that Farad should consider if he decides to convert the car repair building into a shop. [8]
- (d) Discuss methods of market research that Farad might use to help him to decide whether to open the shop. [10]

Eldorado Restaurants

Eldorado Restaurants (ER) own a chain of restaurants. The restaurants cater for people with high incomes. ER's marketing is based on high quality service and value for money. Advertising has not been needed because recommendations from customers have ensured that most of the restaurants are very busy even though prices are high.

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Although sales revenue is increasing, profit margins are falling:

Table 1 Extract from Profit and Loss (\$m)

	2005 (Actual)	2006 (Forecast)
Sales revenue	2.0	2.5
Gross Profit	1.0	1.1
Wages/salaries	0.3	0.6
Other expenses	0.4	0.4
Net Profit	0.3	0.1

Zed, the company's Operations Manager, has recently noticed great differences in the quality of meals and service. Some restaurants seem to work to lower standards than others. In some restaurants staff seem to be highly trained, while in others there is little evidence of any training.

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Zed is thinking of introducing better quality control into the chain of restaurants to solve these problems. Each restaurant has a chef, responsible for the kitchen, and a manager responsible for all other matters. Chefs do not like being told what to do. Until now, Zed has given authority to managers and chefs to run the restaurants. He knows that staff recruitment and retention is a problem at some of the restaurants.

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The Directors of Eldorado want to open a new restaurant at the international airport. This will need a large investment. Customers are likely to be people leaving on an international flight, or using the airport to change from one flight to another. Airline staff and airport workers might also become customers. The Directors are considering the changes that they might need to their marketing mix for this new venture.

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(a) Explain the following terms:

- (i) sales revenue (line 6) [3]
 (ii) manager (line 13). [3]

(b) (i) Using the figures from Table 1, calculate the missing value of X in Table 2:

Table 2

	2005	2006 forecast
Gross profit margin	X	44%
Net profit margin	15%	4%

[2]

- (ii) Using your answer to (b)(i) and other information, comment on trends in ER's profits. [4]
 (c) Discuss how Zed could improve quality in ER's restaurants. [8]
 (d) Recommend changes to the current marketing mix that might be needed for the restaurant at the international airport. Justify your answer. [10]