

Script H with marks – paper 2

**IGCSE Business Studies
0450/02**

June 2002



UNIVERSITY *of* CAMBRIDGE
Local Examinations Syndicate

Centre Number Candidate
Number

Candidate Name

**International General Certificate of Secondary Education
CAMBRIDGE INTERNATIONAL EXAMINATIONS**

0450/2
MAY/JUNE SESSION 2002

BUSINESS STUDIES
PAPER 2

1 hour 45 minutes

Candidates answer on the question paper.
No additional materials are required.

TIME 1 hour 45 minutes

INSTRUCTIONS TO CANDIDATES

Write your name, Centre number and candidate number in the spaces provided at the top of this page.

Answer **all** questions.

Write your answers in the spaces provided on the question paper.

INFORMATION FOR CANDIDATES

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

The businesses mentioned in the questions are entirely fictitious.

FOR EXAMINER'S USE	
1	8 ✓
2	10 ✓
3	17 ✓
4	7 ✓
5	12 ✓
6	6 ✓
TOTAL	60 ✓

This question paper consists of 11 printed pages and 1 blank page.

D.H. Hairdressers Ltd

Dwight Henry has always wanted to own and run his own business. 'I thought it would be fun to be my own boss and not to be told what to do all the time,' said Dwight. He has been to college and has qualifications in hair cutting and styling. He decided that he would open a shop specialising in styling and hair creation specifically for teenage boys and girls. He felt certain that there was a gap in this market segment. 5

Dwight produced a business plan that he took with him on his visit to his bank manager. He needed a bank loan to help finance the start-up capital of the business. The bank manager asked a lot of questions about cash flow forecasts, liquidity and even market research. Dwight's answers must have satisfied the bank manager. After the meeting the manager wrote to him and said that his request for a fixed interest loan for five years had been approved and an overdraft facility had also been agreed. Dwight could not wait to get his business started. 10

Table 1 below is an extract from the financial figures that Dwight showed the bank manager as part of his business plan. 15

Table 1

Forecast weekly profit / loss account \$

Sales		1000	
Less Wages	500		
Own Salary	100		
Materials	40		20
Gross Profit		?	
Overheads	200		
Net Profit		160	

The above figures were based upon the following assumptions:

1. Number of customers per week = 400 25
2. 8 staff employed
3. All staff receive the same weekly wage
4. 50 week year

1 Explain the following terms contained in the case.

(a) Market segment (line 6)

This is a group of people who have been the same characteristics. The market splits up people according to these characteristics and these groups are called market segment.

(b) Cash flow forecasts (line 9)

This is the ^{predicted} cash inflows and cash outflows of a business ^{in the future}. It shows how well a business performs. They help run the business.

(c) Liquidity (line 10)

This is how easily a business can pay back its short-term debts. A businesses most liquid asset is cash.

(d) Gross profit (line 21)

This is calculated by: Sales revenue - cost of goods sold. It's the profit made directly from the goods sold.

[12]

8

2 The bank manager had asked about the market research that Dwight had undertaken.

(a) What market research information do you think the bank manager would want to see?

~~① Consumer panels to see if teenagers do~~
~~spend their money on hairdressing.~~ ~~② Interviews~~
~~or questionnaires that tell him what kind~~
~~of hair cuts are mostly in fashion. They~~
~~could also get this from magazines. If there~~
~~is a high demand for a hairdresser for teens.~~
He would also want to know if there are
competitors and their prices and techniques. [4]

3

(b) Why do you think that the bank manager asked for this information?

He would want to know the demand to see if
the business will get profits. He would want
to see future forecasts to see how long it
would take the business to pay back its loan.
If competition is high it means the business will take
longer to become successful. Costs and profits. The

3

(c) Explain how Dwight might have collected this information.

By primary research. This could include
questionnaires, interviews or consumer panels.
This would give him direct, un-biased information.
~~Or it~~ But it's time-consuming and expensive.
He could carry out secondary research such
as read newspapers, magazines. This would
be less expensive but could be biased since it
voices only one opinion. [4]

4

10

3 (a) Calculate:

(i) the average price charged per customer.

$$\frac{1000}{400} = \$2.5$$

2

(ii) the wages per employee,

$$\frac{500}{8} = \$62.5 \text{ a week}$$

2

(iii) the forecasted gross profit in the first year.

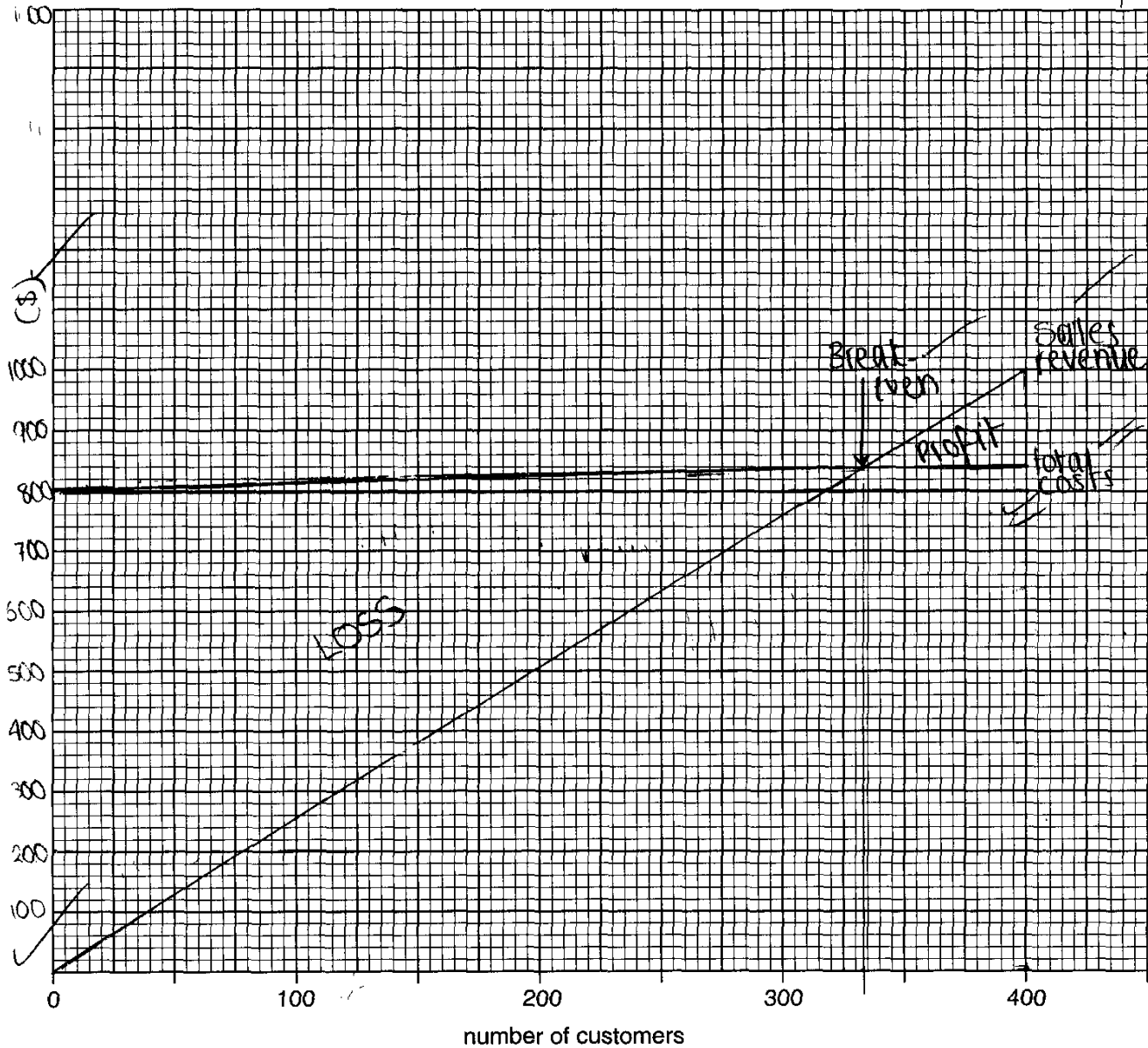
$$1000 - (500 + 400 + 40) = \$360$$

Sales revenue - cost of goods sold.

/

[6]

- (b) (i) Construct a break even chart for the business based upon the forecasted weekly sales. (Note: All costs are fixed except for materials.)



[8]

- (ii) State the weekly break even point from your chart.

145 customers

332 customers

[2]

2

(iii) Why would this break even figure be of use to Dwight?

Because now he knows how many customers he needs in-order to cover the total costs. He can now predict futur profits and estimate how much he'll make ^{depending} on the n^o of customers he has. It will help manage cash flow and predict futur profits and losses. It shows him the area of profit and loss. ~~He can now also calculate profits~~ [4]

2

17

- 4 Dwight knew that it would be important to promote his business in order to attract customers. State and justify the promotional methods you think he should use to attract customers to his business.

~~I think he should first create a brand name~~
~~and image. This will make his ^{buy} product unique~~
~~compared to oth~~. He should advertise in areas
depending on the teenagers. He should carry out
market research to see when, where and how
he should advertise. It can be informative, and
thus telling people about the business and telling
them it exists. It could be persuasive, in this
case we use the AIDA model. This attracts and
interests consumers. It gives them the desire and
action to buy the product. In the beginning stage of
opening his business he could give promotions
such as money-off coupons. ~~or~~ He would also
need a good location in order to attract the
market segment. He would need to use promotion
pricing ~~or~~ and in order to enter he needs to use
price-penetrating so that he could attract new
customers and compete with other existing
businesses. When advertising he should probably
use a celebrity and advertise in teenage magazines
and on t.v at appropriate times. location - it
should be close to where teens hang-out and the
employees should be young as well so that they
can communicate better with the teen customers.
Within the salon they should have young
decorations and use an up-to-date style. [12]

(7)

5 Dwight believes that it will be important to motivate his staff.

(a) Why do you think that the motivation of his staff would be important?

If the staff is well motivated they there are likely to be less absentism. They will be willing to work overtime, which usually a business requires. They will be more happy and so be more friendlier to customers. They will work faster and produce good hair cuts. Less chance of them leaving the business, which will make Dwight recruit new skilled people, this is time-consuming. ✓ [4]

4

(b) Explain the methods Dwight could use to motivate his staff.

He could use job enlargement, this is where the person gets more tasks to carry out of the same level of responsibility. Job enrichment, here the person gets tasks of higher levels. Delegating and including them in business decisions. This improves gives employees motivation and job satisfaction. Monetary awards this could include bonus, profit-sharing or commission this will get them involved in how well the business operates and they will do a better job. ^{while} ~~well~~ piece-rate would make them work faster but this could result in poor quality hair cuts and thus a bad reputation for the business. Non-monetary or fringe benefits such as house fees, company car, medical, dental care. This could also motivate employees. The work place should be nice and by doing after-work activities allows employees to become friends creating a nice working environment.

[10]

12

- 6 The bank manager had told Dwight that many new business start-ups fail. What steps could Dwight take to reduce the chances of his business failing?

He could carry out a lot of market research, in order to be sure there's quite a high demand for his business. Also he could keep his prices low and use a lot of advertising and promotional techniques to keep ~~consumer~~ customers interested. If he provides a friendly service he will realise that people keep coming back. He has to consider the marketing mix very carefully. He could become a partnership, here he'll get more money and ideas. Another option is for him to franchise. He could open for example a famous hair salon just for teenagers, e.g. Toni and Guy for teens. Because the company is already known, advertisements are paid for he gets a lot of benefits and it will be less likely that his business fails. He should also make sure that he has future fore-casts ready. He needs a lot of capital he should have a lot of investors and lend money in-order to survive the first months of opening a business. He should've prepared futur fore-casts and budgets to see when he might need financial aid and then find a solution.

6

