



Cambridge International Examinations
Cambridge Ordinary Level

BUSINESS STUDIES

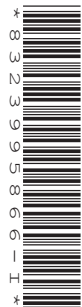
Paper 2

INSERT

7115/21

May/June 2017

1 hour 30 minutes



READ THESE INSTRUCTIONS FIRST

This Insert contains the case study material.
Anything the candidate writes on this Insert will not be marked.

This document consists of **3** printed pages and **1** blank page.

T T-shirts (TT)

TT is a private limited company set up 15 years ago in country P. It buys ready-made plain white T-shirts and then prints designs on them. The T-shirts are imported from country Q, a developing country. TT has 50 different designs that are produced in batches of various sizes, from child size to extra large adult size.

The T-shirts are sold to small retailers in country P. These retailers expect high quality products. The Marketing manager is considering changing the 'place' part of its marketing mix as she wants to increase sales of T-shirts.

The share capital invested to start up the company was \$2m. Shareholders' funds had increased to \$8m by 2015, but stayed at this level in 2016.

TT directors want to expand the company by exporting their T-shirts and are considering the following two options.


Option A:

Take over DesOwn, a competing company, which manufactures personalised T-shirts to the customers' own designs. This company only sells online and its brand is recognised worldwide. It has a large share of this global e-commerce market. TT will have to raise \$10m to buy out the existing shareholders. Some workers could be made redundant if departments in the new company are merged with those in TT.

Option B:

Invest in expanding its own production facilities by buying new computer-controlled equipment for \$500 000. This will allow an increase in the production of the existing range of T-shirts. TT could then sell directly to large retailers in other countries. However, they may have to use an agent or go into a joint venture to be successful.

Appendix 1: Advertisement



T T-shirts

- High quality material used
- Many designs available – lots of choice
- All sizes available – from child to extra large adult
- Buy T-shirts from small clothing retailers across the country

Appendix 2

SMS (text) message from TT production employee to a friend

Really unhappy at TT factory! – expected to do a lot of work on tasks I am not paid for – expected to advise customers on designs when I have no training on this – shouted at if I do anything wrong or do not make a lot of T-shirts each week – the Operations manager just tells me what to do and she never asks what I think. If I say anything then I am told to keep quiet. Really fed up and want to leave. ☹

I never know what is happening at the factory as information is only put on one noticeboard but that is in the other building!

Appendix 3

TT financial information (\$m)

	2015	2016
Revenue	10	15
Cost of sales	2	4
Expenses	7	9
Capital employed	10	14

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Paper 2

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Candidates answer on the Question Paper.

No Additional Materials are required.

READ THESE INSTRUCTIONS FIRST

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

Write in dark blue or black pen.

You may use an HB pencil for any diagrams, graphs or rough working.

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

DO NOT WRITE IN ANY BARCODES.

Answer **all** questions.

The Insert contains the case study.

The business described in this question paper is 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.

The total number of marks for this paper is 80.

This document consists of **9** printed pages, **3** blank pages and **1** Insert.

1 (a) Identify and explain **two** ways in which TT might achieve quality production.

Way 1:

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Explanation:

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Way 2:

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Explanation:

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.....[8]

2 (a) Identify **two** motivational theories and explain how TT could use these theories to help increase worker motivation.

Theory 1:

Explanation of how TT can use this theory:

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Theory 2:

Explanation of how TT can use this theory:

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[8]

- (b) TT should consider the following **three** changes before making a final decision about whether to start exporting its products. Which change will be the most important for the decision? Justify your answer.

Appreciation in the exchange rate of country P's currency:

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Increased economic growth in many developed economies:

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Increase in the import tariffs in many developed economies:

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Conclusion:

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[12]

3 (a) Identify **two** communication barriers which might occur within TT and explain how each barrier might be reduced.

Communication barrier 1:

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How barrier might be reduced:

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Communication barrier 2:

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How barrier might be reduced:

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.....[8]

(b) Consider the following **three** channels of distribution TT could use for its products in country P. Recommend the best channel to gain the highest sales. Justify your answer.

Sell to a wholesaler:

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Sell directly to large retailers:

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Open its own shops in shopping malls:

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Recommendation:

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[12]

- 4 (a) Identify and explain **one** reason why TT will need short-term finance and **one** reason why TT will need long-term finance.

Short-term finance reason:

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Long-term finance reason:

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