Centre Number	Candidate Number	Name

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Ordinary Level

BUSINESS STUDIES **7115/02**

Paper 2

May/June 2005

1 hour 45 minutes

Candidates answer on the Question Paper.
No Additional Materials are required.

READ THESE INSTRUCTIONS FIRST

Write your Centre number, candidate number and name on all the work you hand in.
Write in dark blue or black pen in the spaces provided on the Question Paper.
Do not use staples, paper clips, highlighters, glue or correction fluid.

Answer **all** questions.
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 business described in this question paper is entirely fictitious.

If you have been given a label, look at the details. If any details are incorrect or missing, please fill in your correct details in the space given at the top of this page.

Stick your personal label here, if provided.

For Examiner's Use	
1	
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This document consists of **13** printed pages and **3** blank pages.

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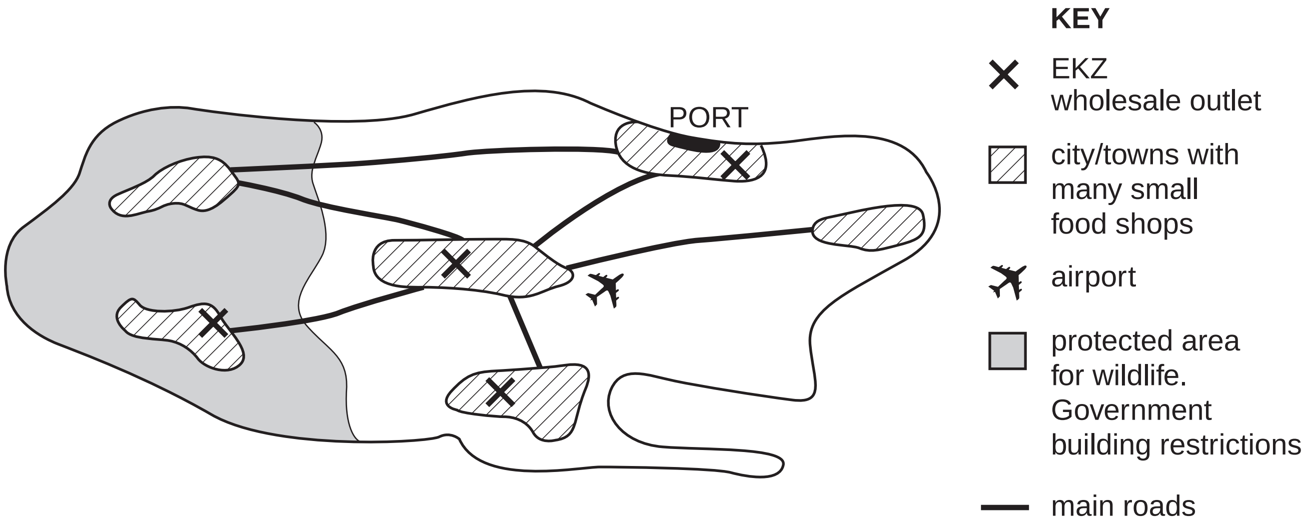
EKZ: A food wholesaler

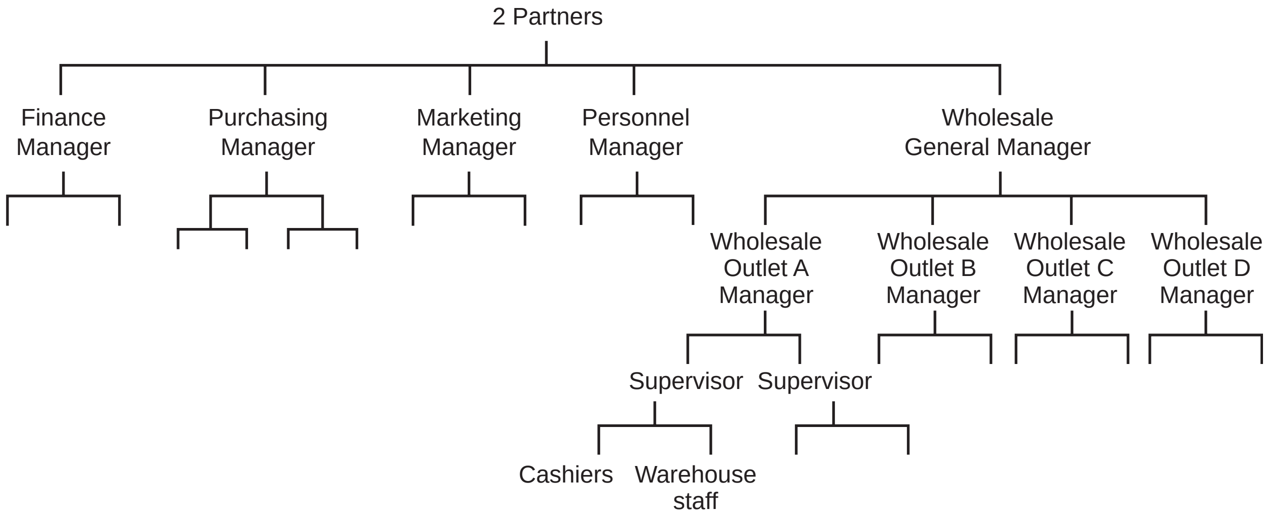
EKZ is a partnership owned by 2 people. It is a food wholesaling business. It imports food from many European countries and then sells it to small local retailers. Shop owners have to pay cash to EKZ when they make purchases. Fig. 1 shows EKZ wholesale outlets and the shops they sell and distribute their products to.



Map to show the locations of EKZ's wholesale outlets in Country A

Fig. 1

EKZ employs 500 workers as shown below in Fig. 2. It has to follow the employment laws that protect employees. Written orders are sent to the managers of the wholesale outlet every week. However, one of the workers in the wholesale outlet was heard to say, "We never know what to do".



Organisation chart of EKZ

Fig. 2

Recently EKZ have had increased competition from several large supermarkets. [illegible] supermarkets import their own food products. If EKZ are to compete effectively they must [illegible] an appropriate marketing mix. The small local shops have also faced competition from th[illegible] supermarkets. EKZ want to support local shop owners and think that improving their customer service would be one way of keeping these customers.

At the present time the owners of the local food shops have their own vans to collect food from EKZ. They find it difficult to transport products which are chilled or frozen. If these products are not kept cold enough then they cannot be sold because of consumer protection laws.

The country's exchange rate has fluctuated over the last year. The owners of EKZ have found it difficult to make accurate forecasts of their costs. This has resulted in cash flow problems at certain times in the year. The currency of EKZ country is $.

Table 1

	2004	2003
Exchange rate (average over the year)	\$1 = 3 Euros	\$1 = 2 Euros

The EKZ marketing manager says "We are going to have to offer more promotional pricing to our customers on certain products to help us increase sales. Our advertising method of sending sales leaflets to the local shops seems to be quite effective. I don't think we should advertise in local newspapers or on the radio even though the large supermarkets do. We must do something because our sales have not increased and our net profit has fallen."

Extract from the accounts of EKZ year ending 31 December 2004 and 2003 in \$m

	2004	**2003**
Sales	120	120
Cost of sales	80	60
Gross profit	40	60
Expenses	35	40
Net profit	5	20
Owners' funds	100	100

Fig. 3

For Examiner's Use

1 **(a)** The owners of EKZ do not have limited liability. Explain what you understand by liability'.

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(b) What are the advantages to the owners of EKZ of operating the business as a partnership?

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(c) Refer to Fig. 2. Identify **two** possible communication barriers within EKZ.

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For Examiner's Use

(d) Discuss how EKZ could improve its internal communication.

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For Examiner's Use

2 **(a)** Why do you think small food retailers buy from EKZ rather than importing the pr[...] themselves?

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For Examiner's Use

(b) EKZ plan to open a new wholesale outlet. Discuss the factors that might af location decision.

[12]

For Examiner's Use

3 **(a)** Identify **two** groups (stakeholders) that might find EKZ's profit and loss account u

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(b) Explain why these two groups would find this information useful.

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For Examiner's Use

(c) Using the information in the case study and Fig. 3 discuss the financial position using at least two ratios.

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For Examiner's Use

4 **(a)** Assume you are the marketing manager of EKZ. What changes would you make
marketing mix to increase sales? Justify your answer.

[12]

For Examiner's Use

(b) Why might prices in the small food shops be higher than in supermarkets?

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(c) Outline **two** ways small food shops could compete with large supermarkets.

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For Examiner's Use

5 **(a)** Refer to Table 1. The exchange rate changed between 2003 and 2004. Expla[in the] effect this might have had on EKZ.

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(b) The government often controls business activity. Give **two** examples of how the government controls business activity.

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For Examiner's Use

(c) Discuss how EKZ might be affected by government controls on business activity.

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