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International General Certificate of Secondary Education

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BUSINESS STUDIES

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Paper 2

May/June 2009

1 hour 45 minutes

INSERT

READ THESE INSTRUCTIONS FIRST

This insert contains the case study material.

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



Python Bicycles

Python Bicycles (a private limited company) has been in business for over 40 years. It has just been taken over by a company that owns a chain of toy shops. The new owners aim to increase the profitability of Python Bicycles. The net profit ratio was low at just 2% and the gross profit ratio was 30% for the year ending May 2009.

The bicycles are produced using batch production methods. The company produces various styles and sizes of adult bicycles. The employees in the production department are all unskilled and have not had any training. The number of employees leaving each year is high as workers are not happy. Working conditions in the factory are poor, wages are low and paid on a time rate basis, and workers do the same job on the production line every day. 5

The components, including the frame, wheels, handlebars and gears of the bicycle are purchased from local manufacturers and sometimes the quality is poor. The deliveries are reliable and take about 4 weeks from when the orders are placed and are paid for on one month's credit. The specialist shops that buy the bicycles take about two months to pay Python Bicycles. The Finance Manager is worried about cash flow. 10

Appendix 1

Python Bicycles Balance Sheet for year ending May 2009

	\$'000	\$'000
Fixed Assets		
Buildings	20 000	
Equipment	2 000	
Total		22 000
Current Assets		
Stock	1 000	
Debtors	20 000	
Cash at Bank	0	
Total	21 000	
Current Liabilities		
Creditors	10 000	
Overdraft	10 000	
Total	20 000	
Working Capital		1 000
Net Assets Employed		23 000
Financed by:		
Shareholders capital	20 000	
Retained profit	3 000	
Capital at 31 May 2009		23 000

Appendix 2**Memorandum**

To: Managing Director (Python Bicycles)
From: Marketing Manager (Python Bicycles)
Date: 31 May 2009
Ref: Target market and marketing mix

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Our bicycles are made for adults. The sales are falling as there has been increasing incomes for many people and they have bought cars or motorbikes instead of bicycles. Also the poor quality of our products can be a problem. I think we should target a different market segment by producing bicycles for children as well. We currently sell our adult bicycles in specialist bicycle shops and advertise in local and national newspapers. Our pricing strategy is cost plus pricing. 10

If bicycles are to be marketed to children then they will need to have a popular design printed on them. Perhaps we could use a character from a popular children's TV programme. We will also have to consider changing to a new marketing mix for the children's bicycles.

We should also consider exporting our products.

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Appendix 3**Government Advertisement****Want to export?**

The Government has set up a new department to help businesses export their products.

Simply ask for advice, apply for a cheap loan or apply for a subsidy and exporting couldn't be easier!

Help our country's economic growth, employment and exchange rate. The government will help you overcome the problems of entering a new market abroad.

Act now - contact the new department today!!!

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