



EXAMINATIONS COUNCIL OF ESWATINI  
Eswatini General Certificate of Secondary Education

CANDIDATE  
NAME

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CENTRE  
NUMBER

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**BUSINESS STUDIES**

**6897/02**

Paper 2

**October/November 2019**

**1 hour 45 minutes**

Candidates answer on the Question Paper.

No Additional Materials are required.

**READ THESE INSTRUCTIONS FIRST**

Write your candidate name, Centre number and candidate number on all the work you hand in.

Write in dark blue or black ink.

Do **not** use staples, paper clips, high lighters, and glue or correction fluid.

Answer **all** questions.

You may use a calculator.

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.

For Examiner's Use	
1	
2	
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<b>Total</b>	

This document consists of **12** printed pages.

## Fabgarments Ltd

Fabgarments Ltd is a clothing business that has been in existence for the past eight years. It makes stylish suits and dresses which are sold using a market segmentation strategy. The company uses batch production methods as opposed to flow production. It is labour intensive and relies heavily on specialisation as well as division of labour. The company obtains its fabric from one of the textile firms in Matsapha.

In the past two years the annual sales have dropped hugely from 12 million to 4 million Emalangeni due to decrease in demand. Before 2012, the company used to sell its products to the United States of America under the Africa Growth and Opportunity Act (AGOA), which offered a tariff free market. However, the company is no longer entitled to export to the American market.

Internally, the business is struggling to pay wages on time. Sometimes workers are paid five days after the normal pay day. All the workers are members of a trade union. To save on wages, the company is considering introducing machinery so that it can retrench some of the workers.

The business is also planning to increase its funding by seeking government assistance. Another choice is to go multinational by targeting countries that are still benefiting from AGOA, such as Lesotho.

Furthermore, the business has decided to target both the local and COMESA markets. In the local market the company will use competitive pricing while at COMESA it has chosen penetration pricing. To reduce production costs, Fabgarments Ltd plans to agree on a merger with the business that supplies the fabric.

### Appendix 1

Table 1.1 shows an income statement for the year ended 30 September 2019.

Items	Amounts in Emalangeni (E)
Sales	4 200 000
Cost of sales	900 000
Gross profit	3 300 000
Expenses	1 200 000
Net profit	2 100 000

### Appendix 2

Table 1.2 shows a forecasted income statement for 2020 under the current situation (local market and COMESA) and if the company opens a branch in Lesotho.

Items	Local and COMESA markets	Opening a branch in Lesotho (Projected)
	Amounts in Emalangeni (E)	Amounts in Emalangeni (E)
Sales	4 100 000	14 500 000
Cost of sales	1 100 000	3 200 000
Gross profit	3 000 000	11 300 000
Expenses	1 700 000	2 300 000
Net profit	1 300 000	9 000 000

1 Fabgarments Ltd uses a market segmentation strategy to sell its products.

(a) Identify and explain any **two** criteria for market segmentation that Fabgarments Ltd could use.

Criterion 1 .....

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Explanation .....

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Criterion 2 .....

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Explanation .....

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The business relies heavily on specialisation and division of labour in its production process.

**(b)** Do you think that specialisation and division of labour would contribute to the success of the business? Justify your answer.

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[12]

2 The company is planning to attract local and COMESA customers by using competitive and penetrative pricing strategies respectively.

(a) Explain any **two** pricing strategies suitable in the two identified markets other than competitive and penetrative pricing strategies.

Strategy 1 .....

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Explanation .....

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Strategy 2 .....

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Explanation .....

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3 The company is struggling to pay its workers on time and so the workers have raised this matter as a grievance against the employer.

(a) Identify and explain any **two** forms of industrial action the workers can take to show their dissatisfaction about the late pay.

Industrial action 1 .....

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Explanation .....

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Industrial action 2 .....

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Explanation .....

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4 Fabgarments Ltd has identified COMESA as a new market destination for its products. COMESA is one of the largest regional trading blocks in Africa.

(a) Identify and explain any **two** benefits to Eswatini of being a member of COMESA.

Benefit 1 .....

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Explanation .....

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Benefit 2 .....

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Explanation .....

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(b) Calculate **two** relevant profitability ratios in each market (COMESA and Lesotho) for Fabgarments using information on appendix 2.

**COMESA**

Profitability ratio 1

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Profitability ratio 2

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**LESOTHO**

Profitability ratio 1

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Profitability ratio 2

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Advise the company based on the calculations and any other information from the case on whether or not to open a branch in Lesotho. Justify your answer.

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[12]

5 Fabgarments Ltd is in negotiations on a merger with the business that supplies it with fabric.

(a) Identify and explain any **two** benefits to Fabgarments Ltd of the planned merger.

Benefit 1 .....

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Explanation .....

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Benefit 2 .....

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Explanation .....

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