

**ADVANCED SUBSIDIARY GCE UNIT
APPLIED BUSINESS**

F246/SM

UNIT 7: FINANCIAL PROVIDERS AND PRODUCTS

STIMULUS MATERIAL

SERIES 2

[It is intended that this stimulus material is used for the January 2007 and June 2007 examination sessions].

Additional materials:
No additional materials are required.



INSTRUCTIONS TO TEACHERS

- This stimulus material provides a vocational context for the internally assessed unit (Unit F246 – Financial Providers and Products).
- Each year one scenario will be released on OCR's web-site which will provide an authentic vocational context for candidates' subsequent investigations.
- Although it is intended that this stimulus material is used for the January 2007 and June 2007 examination sessions, there is no shelf life on this OCR generated stimulus material.
- If you wish to generate your own stimulus material for this portfolio unit, please ensure it is fit for purpose and adheres closely to the guidelines as laid down in the unit specification.
- There are no separate marking criteria with this stimulus material.
- Once the candidate has produced their financial package, they must then consider its effectiveness, given a change in future circumstances to their customer. At this point you must provide additional guidance on what these future changes could be, referring to the unit specification as a source of further information.

INFORMATION FOR CANDIDATES

- This stimulus material has been created to provide you with a vocational context for the internally assessed unit (Unit F246 – Financial Providers and Products).
- If you have any questions regarding the stimulus material, you must consult both your teacher and the unit specification.
- Once your financial package has been generated you must then consider its effectiveness, given a change in future circumstances to your customer. At this point, you will be provided with additional guidance from you teacher to allow you to carry out this evaluative task.

This document consists of **6** printed pages and **2** blank pages.

FIDOS FOODS

Approaching her 42nd birthday, Lilly's life is just about to undergo some major changes. She is in the process of an amicable divorce, about to complete the sale of the matrimonial home and now needs to find a new house which will be suitable for herself and her 15 year old son, Brendon.

Lilly has a number of issues which she needs to consider before making some life changing decisions. Her main focus is Brendon, who has just started his GCSEs. Brendon has an excellent relationship with his father and Lilly feels it important that they are able to maintain this. Any house move, therefore, must be local so that Brendon does not lose contact with his father and he can remain at the same school. 5
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For the past ten years, Lilly has worked part-time at the local doctors' surgery, usually working evening and Saturday morning shifts. The problem is she now needs to work full-time in order to support herself and Brendon. The surgery has offered her extra hours, but Lilly feels it is time to consider a change of direction.

Lilly wants a fresh start – she feels that she needs a new challenge. She has asked herself if she has the confidence to start up and run her own business. 15

The Business Idea

Lilly has been investigating the possibility of buying into a franchise known as *Fidos Foods*. *Fidos Foods* currently sells a wide range of dog, cat and small animal feed, wormers, collars, leads, etc. It has yet to diversify into other animal feed markets, in particular horses. 20

Lilly has been on the *Fidos Foods*' Internet site and found out the following information.

- The purchase price of a franchise ranges from £20 000–£40 000 depending on the established customer base and current turnover.
- The franchise price includes a new sign written Peugeot Boxer van on which the franchisee has to pay an annual lease. Insurance and tax on the van is the responsibility of the franchisee. 25
- The franchisee is only allowed to sell *Fidos Foods*' products. All goods are sold by the franchisee to customers with a 40% mark up.
- *Fidos Foods* will provide assistance with marketing. 30
- *Fidos Foods* will provide a business advisor to help the franchisee through the first six months of trading.

Lilly has made the initial contact with the franchisor to see if there is a current vacancy within her local area.

The Marketing Manager of *Fidos Foods* has told Lilly that, due to a recent reorganisation, there is a partly established franchise territory available for an immediate start. If Lilly could make the investment within the next month, she would be able to take over the current customer base. Up until one month ago these customers generated an approximate turnover of £25 000 per annum. This would give Lilly an approximate gross profit of £7 143 per annum. The Marketing Manager 35
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has assured Lilly that her territory would cover a 30 mile radius from where she currently lives and that the current customer base is, of course, only a very small percentage of all the dog and cat owners living in that area. The cost of this franchise would be £30 000.

Lilly is keen to know what would be the usual annual turnover for an established franchise in a similar territory to her 'own'. She has been reliably informed, by the Marketing Manager, that this varies between £40 000 and £60 000. The Marketing Manager has also advised Lilly that the level of turnover is directly linked to the number of hours a franchisee is prepared to invest in the business. The more time spent knocking on doors, the greater the likelihood that the customer base can be increased. It has also been suggested to Lilly that she needs to develop personal contacts with local dog training clubs, kennels, catteries, etc in order to develop her customer base. 45
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Lilly decided to ask the Marketing Manager, given her own interest in horses, whether she could also provide a service selling and delivering horse feed. Lilly is aware that there is a substantial market for this service within the immediate vicinity. Eventually, the Marketing Manager of *Fidos Foods* agreed that she could trial the sale of horse feed, but she would have to purchase this independently and pay *Fidos Foods* 2.5% of any profit that she makes from such sales. 55

Before committing herself to the project, Lilly needs to find a reliable horse feed supplier – one that will offer her the best deals. Lilly has managed to establish a good contact with a firm called 'Dobbins'. The agreement reached between her and Dobbins enables her to generate a 35% profit margin as long as Dobbins remains her sole supplier of horse feed. 60

The next stage for Lilly is to try to pull together all her figures and to prepare some simple forecast accounts to see if she can persuade her bank manager to lend her the start up capital. 65

As part of her initial research, Lilly decided to contact some local dog training clubs and kennels. Each of the training clubs had agreed that she can attend one of their training sessions and discuss *Fidos Foods'* range of dog foods with their members. Three of the dog kennels she visited would be interested in changing to *Fidos Foods'* dog foods. The other two kennels she visited prefer their customers to come with their own dog food. However, the kennel owners were prepared to take some leaflets and pass the information on to their customers. Unfortunately, Lilly ran out of time and has not yet had the opportunity to approach the local catteries in her area. She is hopeful they might also be interested in trying out the ranges of cat food offered by *Fidos Foods*. So far, the unique selling point of a *Fidos Foods* franchise appears to be the fact that the food is delivered as and when required. Lilly has also visited a considerable number of livery yards and has been pleasantly surprised by the interest shown by the owners – again, the unique selling point is the fact that Lilly will deliver directly to the yard. 70
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Business Needs

Lilly has assumed that as there is already a *Fidos Foods'* customer base generating sales of £25 000 per annum, she will be able to increase this to £55 000 by the end of her first year as a franchisee.

Lilly has estimated that she will be able to obtain 100 horse feed customers each of whom would spend £6.50 a week for the 26 weeks of the winter months and then £6.50 per fortnight during the summer months. Lilly is aware that this is a fairly low 85

estimate and she is confident of being able to dramatically increase this level of sales during her first winter of trading.

Lilly has also estimated that, on average, she will drive at least 60 miles a day. This will include her deliveries and extension of the current customer base. This gives her estimated vehicle running costs of £1 780 per year. The van will cost approximately £550 to insure each year and the road fund tax will be £180 per year. Lilly thinks that the telephone, marketing and administrative costs of her business will amount to about £1 800 per annum.

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The last problem for Lilly to solve is where to store all the food. She has spoken to the owners of the land where she currently keeps her own horse. They are fully supportive of Lilly's plans and are prepared to let her use one of their barns for the notional rent of £25 per week for her first year of trading. There will be no problem with deliveries as there is good road access to the barn.

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Lilly's Forecast Profit and Loss Account for the first 12 months of trading		
	£	£
Sales – <i>Fidos Foods</i>		55 000
Horse feed		25 350
Less purchases – <i>Fidos Foods</i>	39 285	
Horse feed	<u>16 478</u>	<u>55 763</u>
Gross Profit		24 587
Less expenses		
Profit 2.5% on sale of horse feed to <i>Fidos Foods</i>	222	
Lease of van	4 200	
Van insurance and tax	730	
Vehicle running	1 780	
Rent	1 300	
Telephone, marketing and administration	<u>1 800</u>	
		<u>10 032</u>
Net Profit		14 555

Fig. 1

Lilly is aware that she is going to need a loan in order to get the *Fidos Foods*' franchise business started. She has not, as yet, included any interest payments on a bank loan in her calculations.

Personal Needs

In addition to a business loan, Lilly also needs a mortgage to purchase another house. From the divorce settlement, she has received £225 000. She has decided to use £10 000 of this money as a deposit for the franchise and to use the remainder to purchase a house for Brendon and herself. Lilly's main requirement for a house is that it is semi-detached and has three bedrooms. When reviewing her personal finances, Lilly feels that she could afford mortgage repayments of approximately £250 per month. She has also estimated her monthly personal income and outgoings as shown in **Fig. 2**. In light of this, she has decided to remain at the doctor's surgery working three nights a week from 5pm–8pm. Lilly has calculated that she will take home approximately £250 per month from this employment. In addition, she will draw £1 100 per month from her business.

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Lilly's forecast monthly income and outgoings		
	£	£
Income doctors' surgery		250
Monthly drawings (salary) from franchise		1 100
Maintenance for Brendon		<u>240</u>
		1 590
Mortgage (estimated)	250	
Food	250	
Insurances (estimated)	120	
Council tax (estimated)	120	
Pet care (1 dog, 1 horse)	100	
Savings	100	
Car expenses	90	
Brendon's expenses	125	
Clothes	125	
Utility bills	100	
Telephones and Internet	40	
General expenses	<u>125</u>	
		<u>1 545</u>
		45

Fig. 2

The Next Steps

Lilly has asked you to help her produce comprehensive financial packages to meet both her business and personal needs.

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