

**ADVANCED SUBSIDIARY GCE UNIT
BUSINESS STUDIES**

Businesses, Their Objectives and Environment

CASE STUDY

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May be opened and given to candidates upon receipt.



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- This copy may **not** be taken into the examination room.
- The business described in this case study is entirely fictitious.

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THE CHIPS ARE DOWN?

Steve Cole sat in front of his computer. It was time to review the accounts of his business, to see what he had achieved and to plan ahead.

Steve had been in the army for 12 years, had left at the age of 32 and had then undertaken a variety of semi-skilled jobs. Although he had almost always been in employment, he had never felt very satisfied at work, nor had he made as much money as he would have liked for his wife and two children. Towards the end of 2003, at the age of 37, Steve decided to open his own fish and chip shop. 5

This came as a considerable surprise to his wife who pointed out that none of their family or friends had any experience of running a shop of any kind, let alone one selling fish and chips. Nevertheless, Steve was determined that this was to be the path to personal success and financial security for his family. He began working in local fish and chip shops making it clear that he was prepared to do any work that was available because he wanted to learn 'from the shop floor upwards'. 10

He learned fast and soon found that not all managers were the same. Some treated employees well, others as if they did not matter and just expected them to work with little or no training and for the lowest possible wage. Some shops made a point of always using the freshest products, others cheerfully ignored 'sell by' dates. 15

In the summer of 2004 while he was working at a particularly good shop, the wife of the owner, Gerry Evans, became very ill. Gerry was so impressed with Steve's ability and attitude that he asked him to take over the running of the business for three months. This would enable Gerry to look after his wife. This promotion annoyed some of the longer serving employees but Steve relished the challenge and was complimented by Gerry on his achievements. During this time the profits increased significantly. 20

In May 2005 Steve opened his own shop. By November 2006 it had survived 18 months in business; Steve was pleased as this had been his business objective. In the better months he had made a small profit but in most months he had made a loss. The business had an overdraft of £4000, which was right at the limit the bank had allowed, but he had survived! He could look back now and smile at all the events that had occurred since opening the shop. 25

In late 2004 Steve had found a location for his own shop that seemed ideal. It was a new development of an arcade of shops on a large housing estate which also contained a large secondary school. In line with central government policy encouraging the building of low cost housing, there was a proposal to build a whole new estate in the nearby village of Wooton. In addition, the nearest rival fish and chip shop to Steve's site would be over four miles away. 30

Steve started to learn more about setting up a business by looking at a booklet from his bank and also at a variety of business websites. He spent long hours with various business advisors, discussing the information he had found. The next step was to put together a business plan. However, even with a detailed proposal and plan to achieve it, obtaining the start up finance had not been very easy. His bank showed no interest in his idea at all. He tried three others with the same result. Eventually he found one that was impressed with both his plan and with the fact that he would be able to re-mortgage his house and put £120,000 of his own money into the shop. 35 40

That was just the start: there had been other problems before the shop even opened.

It had proved difficult to get any staff; working in a fish and chip shop was evidently not popular and there were no applicants at all the first time he advertised. Steve raised the rate of pay he would offer and eventually found four people who were prepared to work part-time. Steve's wife drew up a rota and offered to help out herself and so it became possible to cover the shop's opening hours. 45

A few days before opening, Steve took delivery of his stock. The fish itself was up to the standard he had agreed but the delivery of chips from another supplier proved to be very unsatisfactory. When he examined them closely he found that almost one third of them were unusable; some looked as if they had defrosted and been refrozen and some looked as if they had been made from unpeeled potatoes. He immediately contacted the supplier, told him he could forget about payment and then stated in no uncertain terms what he would do with the chips if he did not receive fresh supplies immediately. He never heard from that supplier again, although he was not charged for the order. He had to find another supplier very quickly. 50 55

Once he had opened for business, life had not been particularly easy either. After only two weeks it became obvious that money was disappearing from the till in quite large amounts. Steve spoke to all of his employees about this, but all of them denied any involvement. Steve was, therefore, forced to install a CCTV system with one camera focused on the till at all times. The till no longer lost money but relations with his employees were strained. 60

A double blow hit Steve in the second month of trading. First of all, following repeated lateness back for afternoon school, the Headteacher of the local secondary school had banned all pupils from leaving the premises at lunchtime. Steve reckoned that this decision cost him about £500 a week in lost revenue. Then he read in the local paper that planning permission had been refused for the Wooton Estate; apparently the site contained a breeding ground for some threatened species of wild bird. The developer had immediately appealed but without any guarantee of success. 65

The following month trouble flared up at the shop. One night Steve refused to serve a group of drunken youths who were fooling around and annoying his other customers. In the early hours of the following morning he had a call from the police to say his shop window had been smashed. The replacement cost was considerable. Steve contacted the company who operated the CCTV cameras covering the arcade. He was stunned to learn that the camera covering his shop had not been working for the last two months 'because the engineer was off sick'. Steve was furious and a legal battle ensued with Steve trying to claim back the fees he had paid to the security company. This was stress that he did not need. 70 75

Yes, Steve thought to himself as he looked back, it was an odd tale. Perhaps he ought to write it all down and submit it to one of the business journals he read. Then he smiled to himself; probably no one would believe him. Anyway, having reached his initial business objective of surviving for 18 months, and with repeat business growing, he felt confident; it was time to decide where his business was going to go over the next year. He thought that an appropriate objective would be to break even. 80

At that moment the phone rang. It was Gerry Evans with a very interesting offer. Gerry said he was going to retire and offered to sell his shop to Steve.

"But you had the whole place refurbished only six months ago with all the latest technology," said Steve incredulously. "And you had an eating-in area built as well didn't you?" 85

"Yes, but I don't know why I bothered," replied Gerry. "My heart's never really been in it since the wife's illness. I've made plenty of money out of the place. More than enough to retire comfortably on. And she wouldn't be alive if I hadn't been able to look after her and that was all because of you. You can have first refusal on the shop."

Gerry's shop had a prime location in the town centre. The selling price he then mentioned was, in Steve's view, around £40,000 less than the business' true value.

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"That's a good deal, Gerry," he admitted.

"Only to you Steve, I've not gone soft," said Gerry. "I owe you a lot, that's why I've knocked a bit off. Think it over." Steve promised to do so. This conversation made him reconsider his objective for the business.

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In addition, Steve was also thinking about what he had read that morning. There seemed to be mixed messages for his segment of the fast food industry. In his newspaper a report on the economy stated that there had been a rise in average income in the UK of around 3% over the last year. However in one of the trade journals to which he subscribed the news was less welcome. See Fig. 1.

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Current cod catch "unsustainable".

Once again, a number of marine biologists are warning that stocks of cod in Britain's coastal waters are at a dangerously low level. Some are saying that an immediate and total ban on commercial cod fishing is necessary if stocks are ever to recover. Whilst this is unlikely it is expected that, in line with EU policy, the government will shortly reduce the quota on the tonnage of cod that fishermen are permitted to remove.

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Fig. 1

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