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**ADVANCED SUBSIDIARY GCE**

# BUSINESS STUDIES

Business Functions

**F292/CS**

**CASE STUDY**

**Tuesday 24 May 2011**
**Morning**

**Duration:** 2 hours

*F226280611*

## INSTRUCTIONS TO CANDIDATES

- This is a clean copy of the case study which you should already have seen.
- You should refer to it when answering the examination questions which are printed in a separate booklet.
- You may **not** take your previous copy of the case study into the examination.
- You may not take notes into the examination.
- The business described in this case study is entirely fictitious.

## INFORMATION FOR CANDIDATES

- This document consists of **8** pages. Any blank pages are indicated.

## INSTRUCTION TO EXAMS OFFICER/INVIGILATOR

- Do not send this case study for marking; it should be retained in the centre or destroyed.

## Just4Kids Ltd (JKL)

Harriet Hayes always stresses that she is a mother first and a businesswoman second. It is this, she believes, which ensures she focuses on making Just4Kids Ltd (JKL) the best childcare centre on the market. Back in 2005, frustrated in trying to find a suitable nursery for her own child, Harriet came up with the idea of setting up a nursery business. She turned her back on a career and large salary as a Human Resources Director and set about making JKL a reality. For a weekly fee, starting at £195, JKL provides stimulating and educational day care for babies and pre-school children, as well as an after-school club for children aged between 5 and 11. It also provides a babysitting service in the evenings, hosts and runs children's birthday parties at the weekend, and evening classes for parents and toddlers.

JKL has three childcare centres in Birmingham. Each currently has a maximum of 100 places and they are all operating at 100% capacity utilisation. Each centre is a single storey, purpose built building. "This was the only way to deliver our vision, with award winning designed centres based around the needs of the family," said Harriet. This was not cheap, costing a total of £5 million; £750,000 from Harriet and her family, the maximum £250,000 from the Small Firms Loan Guarantee Scheme and the remainder from a property developer who invested as an equity partner. Each of the three childcare centres includes age specific rooms, a Sensory Theatre, Music Room and Studio, outdoor play areas accessed directly from each room and an area for parents to relax and have refreshments whilst visiting. Safety and security are also vital, with CCTV and biometric entry systems in all three centres. A fourth childcare centre is planned to open in September 2011. Harriet is hoping that further expansion will be possible across the country in the next five years with her medium-term target being to open another 10 centres within a 100-mile radius of Birmingham. Looking further to the future, Harriet has already had enquiries from Europe and the Middle East which may lead to an overseas franchise eventually being set up.

JKL's Marketing and Sales Director is Harriet's husband, Matthew Albie. As well as working on the plans for opening the fourth childcare centre in 2011, Matthew is looking into the business behaviour of just one of the growing number of nursery companies which operate in JKL's target market. This competitor, called 'TotsAtPlay', has recently opened new venues in Birmingham, in direct competition to two of JKL's centres and with similar services to those provided by JKL, although the pricing is different (see Table 1). Matthew has also just received preliminary data from a marketing firm which JKL contracted to carry out market research (see Appendix 1).

**Table 1 – Prices for JKL & TotsAtPlay (January 2011)**

| | JKL | TotsAtPlay |
|---|---|---|
| **Daycare for pre-school children (Monday-Friday)**<br>Aged up to 2 years old<br>Aged between 2 and 5 years old | <br><br>£245 per week<br>£195 per week | <br><br>£45 per day<br>£35 per day |
| **After-school club** | £10 per session | £9 per session |
| **Babysitting service** | £20 per hour | ** |
| **Children's party** – a 2 hour party for up to 20 children (includes all refreshments, cake and entertainments) | £100 | £120 |
| **Evening classes for parents and toddlers** | £10 per hour | ** |

** Service not provided

NB: Prices at each of JKL's centres are identical.
Prices at each of TotsAtPlay's centres are identical.

Matthew is concerned that any changes to JKL's marketing strategy, in response to the increased competition, will have an impact on cash-flow (see Appendix 2). Up to now, JKL has been able to rely on the initial start-up capital and its equity partner's ability to secure a substantial overdraft. At a recent board meeting, Harriet had a conversation with JKL's Finance Director, Jordan McTear, on this subject.

"Having more and more sites is going to create a real drain on resources for us," said Jordan, "With the planned rate of growth, we really need to find a new financial partner with deeper pockets. We are still at least two years away from achieving break-even."

"How much more capital do we need?" asked Harriet.

"Well, it may be £4 million, or it may be £20 million," replied Jordan, "the problem is, Harriet, that growth was not in your original business plan and so the business has not really had a clear growth strategy. We need to make a decision about where we want to be in 10 years time. This will make it easier to decide how much extra finance is needed and where the best place to get it from is. Do we want to keep an equity partner which has a significant minority stake or do we want to explore options which give us, the board, more freedom to make decisions, such as franchising?"

"What about getting a venture capitalist involved?" asked Harriet.

Before Jordan could reply, Matthew interrupted. "I am sure that this is all very important for the long-term future of this business but it does not deal with the shorter term cash-flow problems. We need to do something which will have an effect in the next six months, rather than the next six years, otherwise all these grand plans will be irrelevant."

The meeting ended a little later with no progress having been made.

JKL employs 170 staff, working in teams, with over 100 employees being part-time. 60% of the staff have an NVQ Level 2 or degree level qualification in childcare. The majority of the remainder are currently working towards a childcare qualification, with JKL paying 90% of these costs. (This cost has to be repaid by the worker if they choose to leave JKL within one year of completing the qualification.) The staff-child ratio exceeds the legally required minimum. One of Harriet's aims when she set up JKL was to raise the standards and status of childcare. To this end, JKL pays a salary which is above the industry norm and provides a range of other incentives, including:

- a bonus scheme for all team members based on quality reviews completed by customers
- increased pay levels on achieving certain childcare qualifications
- paid study time for degree students
- paid training time for a minimum of 10 in-house courses per year
- a clear promotional structure within each childcare centre
- a management training programme for all team leaders
- flexible rotas
- employees of the month
- discounted childcare rates for staff
- a discount card for many high street stores
- a large staff room, with lockers, showers and an adjoining garden.

According to its website, JKL 'celebrates its star employees while dealing fairly and quickly with anyone not meeting its high standards'. The staff are also highly empowered with each worker being told 'If you haven't got what you need, you are empowered to purchase it yourself without asking permission and JKL will pay you back immediately'.

Harriet also likes to meet staff members at all three of the sites on a regular basis, individually and in groups. She visits each centre at least once a month to hold a breakfast meeting with a group of around 10 workers. She sees this as a chance to find out how the staff feel and to give them a direct influence on company policy.

In one such meeting an issue was raised which generated a lot of debate amongst the workers. It was raised by Delia Evers, a room supervisor at one of the centres, who has worked for JKL since it first began.

“We have been hearing rumours about you increasing the number of children we have during the day,” said Delia. “We all think that the current numbers are just right and it is, after all, the number which the building is designed for. The children, the parents and the staff are all very happy at the moment and we do not want to see anything happening which might jeopardise this.”

“Well,” replied Harriet, “I can’t comment on rumours but, Delia, you should know better than anyone that we cannot stand still if this business is to continue to grow and be successful.”

Harriet left the meeting annoyed that the rumour about increasing numbers above the current maximum capacity of 100 children per centre had surfaced. It was, in fact, true that this proposal had been discussed at length by the Board of Directors. It was one of a number of suggestions made to deal with the current demand for places at JKL.

Another issue which Harriet is working on, is trying to further advance her originally stated aim in setting up JKL, of raising standards in childcare. Although small in number, there have been some recent high profile articles in the national newspapers about child neglect and abuse in nurseries and childcare centres across the UK. As registered childcare centres, all three of JKL’s sites are visited regularly by OFSTED, which ensures ongoing compliance with government standards both in terms of quality of care and educational curriculum delivery. In addition, JKL is a member of the National Day Nurseries Association (NDNA) which runs a quality accreditation scheme called ‘Quality Counts’.

JKL’s Operation’s Director, Darius Li, has just returned from a seminar run by the NDNA to publicise the Quality Counts scheme.

“It definitely sounds like something we should be doing,” said Darius to Harriet at the start of their next weekly meeting. “It will act as an indicator of quality to parents, it helps us to keep up-to-date with legislative and regulatory requirements and it also promises to help us to be more environmentally friendly by cutting down on transport and paper consumption.”

“You sound as though you have swallowed a brochure,” joked Harriet. “But in all seriousness, isn’t this going to take a lot of management and employee time away from their other work, attending meetings and filling in forms?”

“I don’t think so,” replied Darius, “It is primarily an online scheme, with all staff accessing training resources and assessment tasks via a secure website which they can access from any computer once they have the log in details.”

“What does it actually do?” asked Harriet.

“I will have to read from the brochure for this,” laughed Darius. “It says that the scheme will ‘help you review and develop the quality of childcare practice at your nursery, reflect upon and develop your managerial and business skills, lift staff morale, team spirit and motivation, firm up and manage procedures and policies as well as keeping up-to-date with the latest childcare developments’. It seems to be exactly what we have been looking for to take us to the next level of quality.”

“What’s the cost?” asked Harriet.

“Looking at the latest price list, I reckon it will be £980 per centre to start off with and then three annual payments of £210 per centre which includes the cost of reassessment at the end of the three year period of validity,” replied Darius. “I’ve got all the details and application forms in this pack. We could have it all up and running within the next month.”

Harriet had plenty to think about as she drove home from work that evening. The NDNA’s Quality Counts scheme seemed to provide the opportunity to achieve the aim of improving quality, and the appearance of quality, to all of JKL’s stakeholders. However, there were clearly disadvantages as well as advantages to the Quality Counts scheme and Harriet was aware of other possible quality initiatives which could be implemented at JKL. It was going to be important that Harriet and her Board of Directors made the right decisions about how to improve the quality of the services JKL provides.

## Appendix 1 – Extract from the preliminary market research

We estimate that the UK children's day care nurseries market was worth £4.3 billion in 2010. Like the broader childcare sector, the children's nurseries market has continued to grow rapidly in the last 10 years, and is now almost 10 times the size (in nominal terms) than at the end of the 1980s.

Increasing demand for nursery services and general childcare from working mothers has driven market expansion. The key factors driving demand include delayed family formation, increased female work participation, and a shift in parents' preferences towards childcare and early years education. Average fees paid were estimated at £182 per week in January 2011.

### Market size

A total of 13,960 children's day nurseries in the UK provided 604,500 places for children between 0 and 5 years in January 2011. Average occupancy for the UK was 83%. Over the past 10 years, total nursery sector capacity and demand for nursery services have grown rapidly, concentrated solely in the independent sector at a time when local authority provision has been decreasing. Growth in nursery places has outstripped growth in the number of nurseries, as the average size of nurseries has been increasing.

### Market structure

The structure of the nursery market remains fragmented and dominated by independent for-profit nurseries. However, for-profit nursery groups (major providers with three or more nurseries) are gaining market share and this trend is set to continue. Major providers operating nursery groups (three or more nurseries) account for 11% of total places. Expansion of the nursery market in recent years has been driven by organic growth of existing nursery groups, and a strong consistent number of new entrants.

## Appendix 2 – JKL's Cash-Flow Forecast (March 2011–December 2011)

| | (£'000) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | March | April | May | June | July | August | September | October | November | December |
| | *5 weeks* | *4 weeks* | *4 weeks* | *5 weeks* | *4 weeks* | *4 weeks* | *5 weeks* | *4 weeks* | *4 weeks* | *4 weeks* |
| **Opening bank balance** | –20 | –24 | 11 | 42 | –53 | 2 | –199 | –409 | –295 | –301 |
| | | | | | | | | | | |
| Inflows | | | | | | | | | | |
| Revenue from daycare (1) | 264 | 330 | 264 | 264 | 330 | 264 | 264 | 418 | 335 | 335 |
| Revenue from other services (2) | 12 | 20 | 12 | 12 | 15 | 10 | 20 | 20 | 20 | 15 |
| | | | | | | | | | | |
| **Total Inflows** | 276 | 350 | 276 | 276 | 345 | 274 | 284 | 438 | 355 | 350 |
| | | | | | | | | | | |
| Outflows | | | | | | | | | | |
| Materials | 56 | 45 | 45 | 56 | 45 | 45 | 71 | 57 | 57 | 57 |
| Labour costs (3) | 200 | 165 | 165 | 200 | 165 | 165 | 267 | 220 | 220 | 220 |
| Utilities & business rates | 14 | 15 | 15 | 15 | 15 | 20 | 20 | 20 | 20 | 20 |
| Marketing costs | 5 | 5 | 5 | 5 | 20 | 30 | 20 | 10 | 5 | 5 |
| Miscellaneous expenses | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 |
| Interest | 1 | 11 | 11 | 11 | 11 | 11 | 12 | 13 | 15 | 14 |
| New equipment | | 40 | | 60 | 30 | | | | 20 | |
| Fittings & equipment for new centre | | | | | | 200 | 100 | | | |
| Maintenance of buildings, etc. | | 30 | | 20 | | | | | 20 | |
| | | | | | | | | | | |
| **Total Outflows** | 280 | 315 | 245 | 371 | 290 | 475 | 494 | 324 | 361 | 320 |
| | | | | | | | | | | |
| **Net cash flow for month** | –4 | 35 | 31 | –95 | 55 | –201 | –210 | 114 | –6 | 30 |
| | | | | | | | | | | |
| **Closing bank balance** | –24 | 11 | 42 | –53 | 2 | –199 | –409 | –295 | –301 | –271 |

(1) Billed at the end of the month – 30 days payment terms

(2) Billed at the end of the week – 7 days payment terms

(3) Part-time staff paid weekly and Full-time staff paid monthly