

325/01

BUSINESS STUDIES

BS5a

A.M. THURSDAY, 15 June 2006

(1½ hours)

ADDITIONAL MATERIALS

In addition to this examination paper, you will need:

- a calculator;
- a 12 page answer book.

INSTRUCTIONS TO CANDIDATES

Answer the **one** compulsory question in the separate answer book provided.

You are advised to spend approximately 30 minutes reading the information provided and making rough notes before you answer the question.

INFORMATION FOR CANDIDATES

Mark allocations are shown in brackets.

Candidates will be assessed on their quality of written communication i.e. the structure and presentation of ideas; the clarity of expression; grammar, punctuation and spelling. Up to three marks will be awarded for written communication.

No certificate will be awarded to a candidate detected in any unfair practice during the examination.

1. Study the information below and answer the question that follows.

DONALD AND ANGELA'S NEW VENTURE

Donald Dickens met his future wife Angela when he was at university and she was a student pursuing a degree in Catering and Hospitality. After university Donald got a job with British Steel and Angela became the catering manageress in a local college, a job which she gave up when they started a family. Their three children, Emma, Charles and Samantha are now grown up.

Recently Donald heard that he was going to be offered voluntary redundancy from his job as manager in the steelworks. Angela's dream has always been to run a pub but until now she has been put off the idea because she is worried that she will be tied to the pub and won't be able to go on holiday. She also is not very keen on cigarette smoke. However, they have now made up their minds that this is what they would like to do and the problem now is to decide which pub they want.

Donald and Angela live in a detached house, which has been valued at £250 000. Fortunately, they have paid off their entire mortgage. As part of his redundancy package Donald would be given a lump sum payment of £50 000. Both Donald and Angela are now 50 years old and they hope to work for another 10 years before retiring.

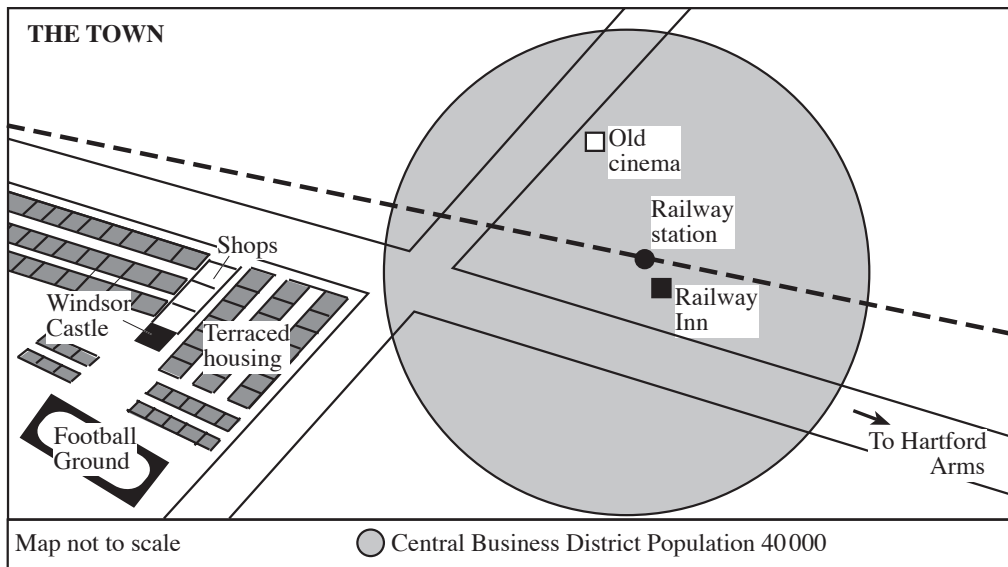
Donald is a keen sportsman and supporter of the local football team. He has for many years been a member of CAMRA, the campaign for real ale. He is also a fan of Blues and Jazz music and he would like to run a pub in town where they could have live music on Friday and Saturday nights. Charles, who is 21 and a keen guitarist, thinks his Dad's idea is great. Angela prefers the idea of running a country pub where she can prepare and sell food, which is more profitable than drinks. Samantha thinks her Mum's idea is much better than her Dad's, as she could help out in the kitchen in the evenings and at weekends.

Emma, who has just finished her degree in Business Studies, thinks that they should look for a compromise solution. She also found out that a big pub chain, whose prices are very competitive, has recently bought the old cinema in the town with the intention of turning it into one of their outlets. She has also learnt that, on average, 500 pubs a year shut in the UK and that beer prices are increasing faster than inflation.

Donald has discovered that there are three different ways of running a pub: leasehold, freehold or tenancy.

- Leasehold is where they take out a lease on a property. This means they are committed to paying rent until the lease expires unless they can sell it to somebody else. Pubs are available in either tied or 'free of tie' formats from Brewers and Property Landlords. Most leases require the lessee to be responsible for all of the repairs and insurance, so the condition of the building is important. The value of the lease is estimated by the amount of business profit and the number of years the lease has left to run. With leasehold, they would have accurate knowledge of the business prior to taking over.
- Freehold would mean that Donald and Angela would own the pub themselves. They would be in total control of the business and the property and responsible for all repairs and renewals. On the other hand, they would be free of any tie to one brewery. The main pitfalls are the high cost of a good outlet and the continued cost of repairs.
- The third option is to take out a tenancy agreement with a brewery. The brewery is responsible for the building repairs, and no goodwill payments exist on the business.

After much research, they found three different pubs located in or near to the town in which they live: The Windsor Castle, The Hartford Arms and The Railway Inn. They were now faced with the decision as to which one would be the best option for them. Emma has done some research on the individual pubs and her findings are given in the relevant sections below.



THE WINDSOR CASTLE

The Windsor Castle is situated on the edge of town, not far from the local football ground. It has two reasonable sized bars and a small beer garden. It has a big screen TV, a pool table and some gaming machines. In one of the bars there is a small stage and the pub has an entertainment licence. The décor includes memorabilia of the local football team.

Upstairs there is a large flat with four bedrooms. The pub is described as being in good decorative condition.

The pub has seventeen years left to run on a twenty-year lease. The brewery is asking for £40 000 for the remaining lease and goodwill, including all fixtures and fittings. This price does not include any stock. In addition there is an annual rent of £30 000 per year plus VAT.

Table 1 - The accounts for the last two years are as follows:

	To 16/9/05	To 16/9/04
Sales	£160 000	£152 000
Gross Profit	£86 000	£82 000
Expenses including rent and wages	£77 000	£74 500
Net Profit	£9 000	£7 500

All of the sales are what are known as 'wet sales' i.e. drinks. There are no food sales at all.

Emma's research revealed the following information. The Windsor Castle is located in what was a traditional working class area but which has undergone a certain amount of 'gentrification' in recent years, as young professional families have moved in. The pub is on the end of a row of shops and is surrounded by terraced houses.

Emma visited the pub twice, once on a Tuesday lunchtime when there was only a handful of customers and once on a Saturday afternoon when it was packed - mostly with men who were watching Arsenal playing Manchester United on the 'big screen'. She noticed that the atmosphere was very smoky.

On the second visit Emma asked twenty customers to answer some questions. Their replies to three of the questions are given below.

Table 2 - How often do you visit the Windsor Castle?

Once or twice a week	9
Three or four times a week	7
Five or more times a week	4

70 **Table 3 - How much do you spend in here in an average week?**

Under £15	8
£15 - £29	6
£30 - £50	4
Over £50	2

Table 4 - Would you say that this is your local?

Yes	16
No	4

THE HARTFORD ARMS

75 The Hartford Arms is a country pub in a little village about fifteen miles away from where Donald and Angela currently live. There is a large garden bordering on the canal, which in summer is very popular with tourists. The pub has two bars, a restaurant, living accommodation and space for fifty diners.

80 The pub is being offered for sale freehold for £450 000 including fixtures and fittings. They would also need to find £15 000 for stock, glassware, crockery, cutlery, etc. Donald realises that if they go for this option, they will need to sell their house and take out a mortgage. They have found out that at current interest rates they will have to repay £75 a month for every £10 000 that they borrow over a twenty-year period.

Table 5 - The accounts for the last two years are as follows:

	To 31/12/05	To 31/12/04
Sales	£200 000	£220 000
Gross Profit	£120 000	£130 000
Expenses (including wages)	£92 000	£96 000
Net Profit (not including mortgage repayments)	£28 000	£34 000

Emma did a survey of twenty visitors in July. She received the following responses:

Table 6 - Are you local or on holiday?

Local	8
On Holiday	12

85 **Table 7 - Did you come here mainly to eat or to drink?**

Eat	16
Drink	4

Table 8 - How often do you come here?

First time	10
Every so often	4
Regularly	6

THE RAILWAY INN

90 The Railway Inn is a town-centre pub which, as its name implies, is not far from the railway station. It has two small bars and one large bar but no garden. It is being offered on a five-year tenancy agreement by a regional brewery chain. The brewery gives enhanced support and training in the first year of the tenancy. There is a kitchen and food' sales at the moment are just over £3 000 a year.

There is a large three bed-roomed flat above the pub which, according to the brewery, "will only require a coat of paint" to make it comfortable.

95 The brewery is asking for £24 000 for fixtures, fittings, stock, glassware, etc. The rent is £693 per week fixed for five years, but increases in line with the retail price index.

Table 9 - The accounts for the last two years are as follows:

	To 31/12/05	To 31/12/04
Sales	£261 000	£272 000
Gross Profit	£130 000	£136 000
Expenses (including rent and wages)	£116 000	£119 000
Net Profit	£14 000	£17 000

Emma visited the pub at the beginning of October and asked the same questions that she had asked in the Windsor Castle.

100 **Table 10 - How often do you visit the Railway Inn?**

Once or twice a week	12
Three or four times a week	5
Five or more times a week	3

Table 11 - How much money do you spend in here in an average week?

Under £15	14
£15 - £29	3
£30 - £50	2
Over £50	1

Table 12 - Would you say that this is your local?

Yes	6
No	14

Emma noticed that the clientele was quite mixed and included a number of students from the local university college, many of whom were smoking.

Write a report (using report format) to Donald and Angela Dickens advising them as to which of the three public houses you would recommend that they acquire. [50]

N.B. You must justify your recommendation.