



General Certificate of Education
Advanced Subsidiary Examination
January 2010

Applied Business

BS03/PM

Unit 3 Financial Planning and Monitoring

Background Material and Pre-release Research Tasks

To be distributed to candidates no sooner than Monday 2 November 2009

NOTICE TO CANDIDATES

You will be given **one** copy of this Background Material and Pre-release Research Tasks for use during your preparation for the examination, which you may annotate as you wish, but which you will **not** be allowed to take into the examination.

The Background Material and Pre-release Research Tasks will be repeated within the question paper for use in the examination.

You are advised to carry out your own research using this Background Material and Pre-release Research Tasks. It is the business concepts and ideas raised by the Background Material and Pre-release Research Tasks which should be researched.

Your teacher is encouraged to give assistance and advice as required.

Out of the frying pan...

While on holiday in 2000, Ian Flood bought his children a packet of premium quality potato crisps and was shocked at the price. Ian is a Cambridgeshire potato farmer. His farm was not very profitable, but when he compared the retail price of the premium quality crisps he had bought with the price he received for his crops, he could see an attractive business opportunity.

By 2009, *Buckden Chips* had established itself in the UK market as a small-scale provider of luxury potato crisps. Ian had formed a partnership with two other local farmers who were seeking to make profits, and the business had initially grown quickly. The three partners each owned large farms and together could supply nearly 50% of the potatoes used by the business; the remainder were bought from other local suppliers.

The establishment of *Buckden Chips* required an investment of £1.2 million by the partners. Each raised 33.3% of the capital, mainly by borrowing and using farmland as security for these loans. The business had invested in advanced production machinery and a newly built factory located on one of the farms. The three partners agreed that the business should aim to use some of the retained profits from the business to fund steady expansion to create a large business. Ian believes that this will require the formation of a private limited company at some stage.

Buckden Chips promotes itself as a supplier of luxury potato crisps available in flavours such as sweet chilli, mature cheddar cheese and sour cream and chives. Flavour enhancers, such as monosodium glutamate and other artificial flavourings and preservatives are not used. The partners place a premium price on the product to set it apart from other brands of crisps.

Buckden Chips targets high quality retailers exclusively in London and the South East of England as outlets for its products. The partners favour selling in delicatessens to emphasise the quality of *Buckden Chips*' products. The business's crisps are sold in 40 gram packets to allow consumers to make impulse purchases of a relatively small quantity of the product. The crisps are supplied to retailers in boxes containing 50 packets. Ian commented that the 40 gram packets allowed a slightly higher price per gram and also encouraged consumers to experiment with any new flavours that were introduced.

Over the past two years, however, the financial performance of *Buckden Chips* has declined as new businesses have entered the market for premium crisps. In addition to well-known manufacturers, such as Kettle Chips (www.kettlefoods.co.uk), many small manufacturers have entered the market with similar products. *Buckden Chips* has seen a fall in sales as the competition has become more intense.

Pre-examination Research Tasks

- (a) Research the advantages and disadvantages for Ian and his partners of:
 - (i) keeping the business as a partnership
 - (ii) converting the business to a private limited company.
- (b) Investigate the issues that the managers of a business would consider before deciding whether or not to accept a large order from a customer at a discounted price.

END OF BACKGROUND MATERIAL AND PRE-RELEASE RESEARCH TASKS