

**ADVANCED SUBSIDIARY GCE  
APPLIED BUSINESS**

**F242/CS**

Unit 3: Understanding the Business Environment

**PRE-RELEASE CASE STUDY**

**JANUARY 2008**

**To be opened on receipt**



**INSTRUCTIONS TO TEACHERS**

- This case study **must** be opened and given to candidates on receipt.

**INFORMATION FOR CANDIDATES**

- You **must** make yourself familiar with the case study before you sit the examination.
- You **must not** take notes into the examination.
- A clean copy of the case study will be given to you with the question paper.

This document consists of **4** printed pages.

## Wayne's Gardening Services (WGS)

### Background

Wayne Adams left school after obtaining modest GCSE results. He spent the next three years in short-term employment before obtaining a job as a machine operator in a factory making plastic household goods in Sunderland. He did not find the work particularly satisfying but at least it provided him with a reasonable income which was sufficient to buy a small terraced house with a garden. 5

In February 2003, the factory closed and Wayne was made redundant after 10 years' service. Although he was very upset at losing his job, he did receive £8000 in redundancy compensation, a sum which exceeded his statutory entitlement. He felt that the redundancy payment provided him with the opportunity to take a step that he had often considered but had always backed away from – that of setting up his own business. He discussed some ideas with Cheryl, his long-term girlfriend. "Look, with my lack of qualifications, my employment prospects are limited. In any case, I don't want to go back to a boring factory job where the foreman is constantly checking up on you." Cheryl sympathised but pointed out the risks and asked the very important question; "What sort of business are you thinking of going into?" Wayne replied that he always enjoyed gardening and garden maintenance might provide him with a nice income and life in the fresh air. 10 15

### An Opportunity

While he was thinking about his future, Wayne came across a copy of 'Business Franchise' magazine. This provided him with an idea that he had not previously considered. The magazine contained advertisements for and reviews of franchise arrangements. One that particularly interested him was 'Wondergreen', a lawn treatment franchise (**see Fig. 1**). In return for the payment of a franchise fee, Wayne could trade under the Wondergreen name offering a lawn treatment service. Wondergreen had developed a system of treating lawns to avoid problems such as moss. The Wondergreen franchise would give him exclusive rights to provide the service in a defined geographical area. When he explained the idea to Cheryl, her reply was "What's the catch?" Wayne explained the benefits of a franchise operation but had to admit that his redundancy compensation was not sufficient to pay for a Wondergreen franchise. They both agreed the franchise involved too great a risk and that the financial investment required was greater than they could currently afford. Wayne decided that if he was to set up in business it would have to be in a more modest way. 20 25 30

### Establishing The Business

Starting as a sole trader under the name *Wayne's Gardening Services (WGS)*, Wayne set up his garden maintenance business in May 2003. With the help of a bank loan, Wayne bought a trailer which he could attach to his rather battered second hand van. He also invested in a motor lawn mower, motor strimmer and electric hedgecutter to add to the hand tools that he already possessed. He then distributed advertising flyers to all the houses and businesses in the local area. This produced some response, although not as much as Wayne had expected. 35

In the first year of operations, Wayne obtained some work. This involved the cutting of lawns and hedges of householders who were either too busy or too old and infirm to undertake the work themselves. He charged £25 for cutting the lawns of houses with average size gardens, rising to £35 for larger lawns. There were similar charges for hedge cutting. The net cash flow in the first year was negative and Wayne discovered that his bank account was deteriorating. 40

In the second year, he obtained some contracts from property managing agents responsible for apartments in the city. Again, this focused on lawns and hedges. The property managing agents drove a harder bargain on prices but were at least prepared to sign a one year contract for Wayne's services. The increase in work meant that he was showing a net cash inflow from the business. He was even able to employ Charlie Williams, an old school friend, on a casual basis during the peak season. 45  
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WGS continued to be modestly successful in the third and fourth year of trading. Reviewing the situation, Wayne was satisfied that the business was established and it provided him with a living. He drew £1 000 per month out of the business for living expenses. But, unfortunately, the garden business is very seasonal and, after various tidying up jobs in late October and November, Wayne faced the prospect of four very lean months before the season started again. His friends thought that he was lucky in that he could spend the winter abroad in the sun but Wayne pointed out that one of the features of self-employment is that 'no work means no income'. "But surely," argued one of his friends, "if you expand the business to take on more work in the growing season, you will have lots of money to really enjoy a winter in the sun!" 55

### **New Direction**

This set Wayne thinking about expansion and new directions for the business. He had heard that Bill Reilly, who operated a similar service, was about to retire and that some of his contracts were 'up for grabs'. They included a very lucrative contract at Moss Bank Manor. The owner, Colonel Danvers, was a keen gardener but preferred to spend time propagating his plants. He, therefore, saved time by paying someone to mow the lawns. Bill also had contracts with a number of firms on a business park, which Wayne was keen to obtain. "If I could get some of Reilly's contracts my profits would rise substantially," he told Cheryl. 60  
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Wayne realised that to gain the contracts he would have to invest in new equipment. This would include a new smart-looking van and perhaps a 'sit on' motor mower to undertake the larger contracts. He calculated that he would require £20 000 to modernise his business, but Cheryl felt that the risk was too great. "We have not got £20 000 and if you borrow from the bank there will be high interest payments to meet and this will be on top of the loan you are still repaying," said Cheryl. "But, I suppose you could lease the equipment. In any case these large contracts require a detailed quotation and you know what happened when you underestimated the cost of wood clearing for Mr Jones!" This was a reference to a painful experience in costing. Wayne had estimated that the job would take two days. As a result he hired equipment and employed Charlie for that period of time. The price charged to Mr Jones was set on this basis but Wayne found that the job took four days and, as a result, he lost money. 70  
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Wayne also discussed his ideas with his father, Phil Adams. Phil was always pessimistic about the future of the world and it did not take much to get Phil going on issues such as the state of politics and the economy. "I think we might be in for a period of political instability with changes in government and, therefore, government policy," commented Phil. "Also, unemployment is rising and the exchange rate could go down. We could be heading for a recession," he added. Wayne had always considered his father's views negative and he did not see the relevance of economic conditions to the prospects for his business. Phil gave Wayne a copy of a business magazine from about 12 months ago and said, "Look at these figures." (See Fig. 2.) 80  
85

### Advertisement for Wondergreen

Wondergreen has been franchising for over 50 years in the USA and is now proud to announce the launch of its service in the UK.

Wondergreen professionals provide fertilisation, weed and moss control, aeration, scarification, insect and disease control services for lawns and gardens.

This all year round business suits people who want to start up in business as well as those who want to grow from owner-operator status to managing a team of people.

We offer a four week training course, full accreditation, exclusive rights, dedicated software and a full equipment pack.

A Wondergreen franchise and full equipment pack costs £28 000. An initial payment of £10 000 is needed and there is finance available to fund the balance.

If you want to grow your own business with the support of one of the world's largest and most respected franchises, please complete the form available on our website.

**Fig. 1**

### Economic data from a business magazine

	2005 actual	2006 actual	2007 forecast	2008 forecast
Inflation %	2.5	2.6	2.7	2.9
Interest Rate %	4.5	5.0	6.0	6.5
Unemployment Figures	0.8 million	0.95 million	1.0 million	1.1 million
Rise in Gross Domestic Product %	2.6	2.7	2.4	2.5

**Fig. 2**

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