

ADVANCED SUBSIDIARY GCE
APPLIED BUSINESS
Understanding the Business Environment

F242/CS

CASE STUDY

Monday 17 May 2010
Afternoon

Duration: 1 hour 30 minutes



INFORMATION FOR 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.
- 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.

Becky's Proposed Business

A career break

Becky Shakespeare had been working as an estate agent for five years when she was made redundant in the autumn of 2006. Her job had involved both property sales and letting/rentals, as well as property management services. Despite her experience and excellent track record, Becky was unable to find another job as an estate agent because of the slowdown which was happening in the housing market. Ever the optimist, Becky decided that it was a good time to take a break from her career and entered another phase of her life – starting a family!

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A business idea

By early 2010 Becky's family situation dictated that she needed to start work again. Becky decided, however, that she only wanted to work part-time and, if possible, to work from home rather than going out to work. Such an opportunity would mean that she would be self-employed, doing what she used to enjoy and she could bring in some extra income to help support her young family.

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Becky is fully aware that the state of the economy has an impact on the property rental market and, in fact, during periods of recession it is the rental market, rather than the house purchase market, which expands. With her previous experience in letting and managing properties, Becky felt that there was an opportunity in the on-going recession to manage properties in the housing rental market. She would manage houses and flats owned by private landlords who do not have the experience and time to manage their properties themselves. Becky would then charge such landlords a percentage commission based on the rental income received from each property.

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A franchise or 'go it alone'?

Becky undertook some research on the Internet which suggested that she could either buy into an existing franchise (an already established business) or she could 'go it alone' and set up her own new business without the support of such a franchise operation. The housing rental market is now more vibrant and Becky knew that the time was right for a small fortune to be made by those who dared to take a risk. Whichever option she chose (franchisee or 'go it alone'), Becky knew that she would run her proposed new property letting and management business as a sole trader.

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Whilst considering her options, Becky came across the following comment on a website.

'...and I had been contemplating starting up my own letting and management agency for some time. It didn't take me long to discover that taking the franchise option would prove not only costly, but also curtail some of the independence which one takes for granted when starting one's own business...'

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Becky also found out that the start-up cost of a property letting and management franchise would be between £10 000 and £12 000. There would also be a running cost of 10% of turnover to be paid to the franchisor. However, costly it may be, franchises do come with expert help and support, training, an established brand name and so on. As Becky has been a full-time mum for the last three years, coupled with the fact that she had always worked for an established organisation, she was aware that the 'go it alone' option – without the support of a franchise organisation – might be rather daunting.

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However, to dismiss the advantages of the 'go it alone' option simply on such grounds could be somewhat foolish. After all Becky would only need a more up-to-date family computer, with appropriate software, located in a quiet corner of the house – so the start-up costs of the 'go it alone' option would be quite low. Becky would not have to worry about answering to anyone and, best of all, she would be able to keep all of the profit. Becky certainly believed in personally reaping all the rewards of her own hard work in running her proposed property letting and management business.

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External influences

Although three years is hardly a very long career break, the speed with which technology is changing and re-shaping the ways in which property letting and management agencies operate is relentless (**see Appendix 1**). Becky is aware that she needs to update her skills and expertise in relation to both new technology and the legislative changes which have taken place in property letting and management services since she was made redundant. New legislation has been introduced, for example, to protect tenants in the private rental market (**see Appendix 2a/b**). 50

There are a myriad of software programs on the market for purchase and immediate use. These range from property management software to ready-made website designs which are commonly used by estate agents across the country. Online advertising is fast becoming the best way to communicate with the target market – not just locally or even within the UK, but across the globe. Online advertising is especially important in the UK student property rental market. 55

The external environment

From her previous experience in the housing and property letting markets, Becky is aware of the significant impact which changes in, for example, the economy might have on the likely success of her proposed new property letting and management business. Although UK interest rates have been at historically low levels and inflation has been very low, there are still over two million people unemployed. Becky remains uncertain as to the future direction of such economic variables. The ‘credit crunch’ has also generated a fall in house prices which means that thousands of homeowners owe more on their property than their property is worth. Those in negative equity who want to move house, or who fall behind with their mortgage payments, often have to sell their homes at a loss. 60

Furthermore, the banks and building societies are demanding larger deposits and charging much higher interest rates on the loans which they are providing than had been the case in the early years of the twenty first century in order to protect their margins. Those first-time property buyers who do not have at least a 10% (and often a 20%) deposit often find it almost impossible to secure a mortgage. The lack of buyers, in turn, means that many domestic property sellers are forced to cut the price of their property in order to generate a sale. 65

All this has led, in turn, to problems for house building companies which are unable to sell the new houses and flats which they have already built (**see Appendix 3**). The lack of activity in the housing market has led to more estate agents making staff redundant – and many were forced to close as not enough revenue could be generated through selling properties to cover the costs of operation. This affected the branches of large national chains of estate agents as well as smaller, independent estate agencies. 70

The property rental market, however, has not suffered in the same way. Even during an economic slowdown there is, at least, a steady – if not growing – demand for property to rent. There are a number of reasons for this trend. We live, for example, in a far more mobile society than was the case even 20 years ago and people need to rent privately due to short-term employment contracts, training and higher education reasons. It is also the case that family break-ups and the growing number of people who are living longer have increased the demand for smaller accommodation units. There are also many other people who are simply reluctant, or unable, to take on a mortgage. 75

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Appendix 1**The end of newspaper advertising?**

An estate agency chain has announced a major reappraisal of its advertising priorities after finding that just 3% of its viewing and buying activity was generated by local newspaper advertising. Earlier this year the chain, eager to establish the most cost-effective way of reaching its clients, measured all activity within a month and found that approximately 41% of all viewings arranged were generated by online activity.

Appendix 2a**Tenancy Deposit Law**

Tenancy deposit law was introduced in April 2007 and it provides protection for tenants by preventing landlords and property letting agents from unfairly withholding a deposit. The scheme protects most tenants.

Appendix 2b**Student landlords alert over EPCs**

Landlords specialising in the student property market are warned not to be complacent about Energy Performance Certificates (EPC) requirements which apply to all rented properties with effect from 1 October 2008.

It has been a legal requirement for landlords to show prospective tenants an EPC from 1 October 2008. Failure to do so could lead to landlords being prevented from marketing their property and a £200 fine, which can theoretically be levied for each and every day the property is marketed without an EPC.

Residential Landlord Association

Appendix 3**900 jobs to go at Taylor Wimpey**

Taylor Wimpey has failed in its bid to secure extra funding of £500m which was needed to see it through the 'credit crunch'.

The company's major markets are experiencing a significant downturn with lower weekly sales rates and lower average selling prices than in recent years.

Taylor Wimpey is expecting that the UK housing market will remain weak throughout the second half of 2008 and it does not expect that there will be any short-term recovery.

The company, which includes Taylor Woodrow and its Spanish subsidiary, Taylor Woodrow de Espana, currently has 39 regional offices. Of these one third will be closed. Approximately 900 jobs will be lost as a result of the cost-cutting measures.

It is considered that the focus on trimming costs and the cutting of the price of its new homes will boost the firm's sales and improve its cash-flow.

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