

**ADVANCED SUBSIDIARY GCE UNIT
APPLIED BUSINESS**

F242/CS

UNIT 3: Understanding the Business Environment

CASE STUDY

PRE-RELEASE MATERIAL FOR JANUARY 2007

JANUARY 2007

To be opened on receipt.



INSTRUCTIONS TO CANDIDATES

- 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 this case study will be given to you with the question paper.

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

Dan Cartwright

Dan Cartwright left school at 16 and became an apprentice electrician working for a small firm. He found that he had a great aptitude for this work and soon developed the skills needed for a successful career in the trade. He was successful in achieving NVQ qualifications and aged 21 became a fully qualified electrician.

Dan enjoyed his work and was very ambitious. He was not fully satisfied being a skilled employee. He felt that both financially and in terms of work satisfaction his interests would be best served by setting up his own business. 5

In 1998 when Dan was 26, he established a sole trader business operating from his home. His work mainly consisted of relatively small home improvement jobs (e.g. adding new sockets in existing homes) and emergency call-out work. Dan obtained some larger contracts such as the complete re-wiring of some of the older houses in the town. He also undertook some sub-contracted work for local building firms. His business brought in a steady income which enabled Dan to marry, take out a mortgage to buy a house and start a family. 10

In the early years, Dan worked by himself without the assistance of paid employees. Dan's wife, Michelle, dealt with the administrative aspects of the business. This included sending out quotations and invoices, book-keeping and banking. Michelle's help was essential in these matters as Dan admitted that he was not very methodical in his record keeping. This became a major issue in their relationship. Michelle, who worked part-time for a firm of solicitors, was very organised and methodical but Dan was careless with paper records. When he was paid in cash or he paid for materials in cash, he often mislaid the paper work. 15 20

After three years of successful business, Dan decided to employ an apprentice, Manoj Patel. Manoj would act as Dan's assistant whilst he was acquiring the skills and NVQ qualifications. For this, he was paid £12 000 per year in twelve equal instalments. Eventually, when Manoj acquired the relevant skills, experience and qualifications he would be sent out on separate jobs. Dan and Manoj got on very well together and Manoj quickly learned the skills necessary to undertake all aspects of the work. Dan's only worry was that Manoj might eventually demand a share in the business or alternatively set up on his own. This might be a problem for the future but, for the moment, it was mutually beneficial to work together. 25

Dan adopted a very simple formula in costing out the relatively small scale jobs that formed the basis of his business enterprise. For his routine work Dan charged £35 per hour. For emergency work, he charged the same hourly rate but imposed a two hour minimum charge. For all this work, Dan provided basic materials (flex, wire, sockets, roses for lights, etc.) from stock. The cost of these materials was included in the £35 hourly rate. A typical one hour of work would involve £5 of items from his stock. This meant that he effectively charged £30 to cover labour and a contribution to overheads. He did not provide major items such as lighting equipment from his stock. He learned from past experience that if he chose light fittings for customers there was a danger that they would not be to the customer's taste. He preferred customers to purchase these items themselves and he would then fit them. Alternatively, customers could choose fittings from a catalogue and he would supply them at cost plus 10%. 30 35

On larger jobs, however, he found that customers insisted on a firm price quotation for the completion of the work. He had to estimate the time for the completion of the work and charge accordingly. Even if the work took longer than expected, he would be committed to the agreed price. Building firms, especially, drove a hard bargain over price. Dan had to keep his prices competitive. Not surprisingly, Dan preferred the smaller household jobs but could not afford to forego these longer term and potentially more lucrative contracts. 40 45

Even with Michelle's help Dan found it difficult to account for overhead expenses. In the case of incidental expenses such as stationery and postage, there were problems in terms of providing Michelle with accurate records of out-of-pocket cash payments. His telephone and vehicle expenses were even more difficult to account for because of the absence of a clear distinction between personal and business expenses. As a result of these accounting problems, Dan did not have a clear idea of the profitability of the business. However, he knew that his business provided his family with a satisfactory standard of living. 50

Michelle knew about the importance of producing a cash flow forecast. Each year, she produced a forecast using a spreadsheet package on the couple's computer. Dan was not convinced of the value of the exercise especially when variances on the budget figures occurred. On one occasion, when they argued, Dan said "What is the point of this budget when last month there was a 10% adverse variance on petrol expenses, a 20% favourable variance on cash income and a 5% adverse variance on purchases of materials?" 55

After seven years of what Dan saw as successful trading, he had built up an excellent reputation for reliability and quality. Realising the value of good customer and community relations, Dan was always willing to help out (free of labour charges) with community work such as Christmas lighting at a local old people's home. He had also developed skills in dealing with customers, some of whom regularly used him for all their electrical work. 60

Dan's business had benefited from new regulations that applied from 2005 (see Fig. 1). These required that all electrical installations must be undertaken by qualified persons and a certificate issued. The new regulations forced householders to use qualified electricians rather than undertake a do-it-yourself job. 65

One of Dan's oldest friends is Arthur Trotter. Arthur had bought an old property which he is 'doing up' using his own considerable DIY skills. Part of the project is a complete re-wiring of the property. Arthur is confident that he can complete the job, even though he has no qualifications in electrical work. He proposes to do the work himself and, no questions asked, give Dan £100 to issue a certificate. Dan was tempted by this offer – he rationalised it by thinking that the money would be cash in hand and would come in useful. He believed that Arthur had the ability to complete the job satisfactorily. 70

Dan now felt that it was time to expand his business further. This had been part of his long term plan but it was also prompted by the prospect of gaining a contract with a major building firm, which was soon to embark on a programme of new house building in his area. To gain the contract, Dan knew that he would have to expand his business taking on more employees. 75

Dan did not plan to acquire new premises; instead he would continue to operate from his home and garage. Michelle would undertake administrative work from the office in a converted bedroom. The garage could hold stocks of materials and, subject to firm conditions, he would permit his employees to take their vans home. 80

If Dan was to go ahead with this major expansion he would have to seek new finance. Dan arranged to see his bank manager, Sunita Gupta, in October 2007. Ms Gupta was sympathetic to Dan's loan application but informed him that he needed to carefully analyse his market before starting his expanded business. She presented him with some information to take away from their meeting to consider before making his final decision (see Fig. 2). 85

On his way home he heard on his car radio that there were to be major job losses in the local economy and, as a result, he started to have second thoughts about expansion.

Appendices

DIY electrical work threatened by new regulations.

The era of the DIY enthusiast carrying out electrical work in their own home could be drawing to a close.

From 1 January 2005 any significant electrical work carried out in the home, particularly in the kitchen, bathroom or garden will have to be carried out by a qualified and registered electrician.

If a householder carries out any work it will have to be checked by local authority building inspectors.

The new rules aim to reduce the number of deaths caused by faulty electrical work and poorly installed wiring.

From 1 January 2005 it is a legal requirement for all fixed electrical installations in dwellings and associated buildings to comply with relevant standards. The relevant UK standard is BS 7671:2001 'Requirements for electrical installations'.

Electrical contractors who register with a competent person self-certification scheme will be able to self-certify compliance with the building regulations whenever they carry out notifiable work. Persons who are not registered with a self-certification scheme will need to notify and submit plans to a building control body.

Fig. 1

Economic Forecasts for the UK Economy provided by Ms Gupta.

- 1 Prices are forecast to rise by 2% in each of the next few years.
- 2 There is likely to be a slow down in the growth of real GDP.
- 3 Interest rates will remain stable at 5.5% but could rise due to inflationary pressures.
- 4 Unemployment is currently at 5% but is expected to rise towards the end of the decade.
- 5 Regional variations in economic performance are expected to widen.

Fig. 2

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Fig. 1 adapted from The Institution of Engineering and Technology, www.iet.org

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