

**OXFORD CAMBRIDGE AND RSA EXAMINATIONS**

**Advanced Subsidiary GCE**

**BUSINESS STUDIES**

**2873**

Business Behaviour

Monday

**6 JUNE 2005**

Afternoon

1 hour 15 minutes

Additional materials:  
8 page Answer Booklet

**TIME** 1 hour 15 minutes

### **INSTRUCTIONS TO CANDIDATES**

- Write your name, Centre number and candidate number in the spaces provided on the answer booklet.
- Answer **all** the questions.
- If you use extra sheets of paper, fasten the sheets to the answer booklet.
- Read each question carefully and make sure you know what you have to do before starting your answer.

### **INFORMATION FOR CANDIDATES**

- The number of marks is given in brackets [ ] at the end of each question or part question.
- The total number of marks for this paper is 60.
- You will be awarded marks for the quality of written communication where an answer requires a piece of extended writing.

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**This question paper consists of 5 printed pages and 3 blank pages.**

Answer **all** questions.

- 1 (a) Calculate the **total annual contribution** if the special order for horse feed from Claire Bayley is accepted. (Refer to lines 36-39 and Table 1.) [6]  
(b) Should Hazel accept this order? Justify your decision. [10]
- 2 Discuss the advantages and disadvantages to PDS of having such a wide product portfolio. [16]
- 3 Evaluate ways in which Hazel may be able to improve stock control in the shop. [16]
- 4 Evaluate the advantages and disadvantages to PDS of introducing a formal training programme for all employees. [10]

### PEGASUS DOWNS STABLES (PDS)

When Hazel Dean bought Pegasus Downs Stables (PDS) five years ago it was just a collection of run down and neglected stables attached to a large farmhouse surrounded by farmland. Hazel had worked as a senior manager for a top bank in the City of London until she was made redundant in 1999. Fed up with the 'rat race' she decided to use her very large redundancy payment to fulfil a dream she had had since being a little girl of owning her own stables. Hazel had been a keen rider from the age of five and had an ambition of becoming a professional jockey until she became too tall. Starting off with just three ponies and offering riding lessons to local children, Hazel is amazed at how things have grown in such a short space of time. 5

PDS currently has a wide product portfolio. The main source of revenue still comes from providing riding lessons. However, there are now a total of 23 horses of differing sizes that allow lessons to be provided for children and adults of all ages and abilities. An indoor riding school built three years ago allows lessons to take place in all weathers and the large number of bridle paths and open countryside surrounding the stables allows for a variety of different hacks. PDS has also become a registered centre for Riding for the Disabled, with three different disabled groups being regular weekly visitors. Although this activity brings in a steady flow of revenue, Hazel is concerned that it also creates many extra costs due to the higher ratio of instructors to pupils required and also the need for these instructors to have specific qualifications. Hazel treats the safety of her customers, staff and horses as the main priority. She, therefore, sets minimum standards for all riding lessons of at least one instructor for every four riders. 10  
15  
20

In addition to providing riding lessons, PDS also provides livery for six horses. This is for horses owned by individuals who pay Hazel a monthly fee to have their horses stabled at PDS, as well as being fed and exercised daily. 25

Another part of PDS's product portfolio is the farmland itself. Rather than leave the land fallow, Hazel made the decision to reintroduce arable farming on the land. This is carried out by a tenant farmer who pays an annual rental income to PDS. The responsibility for the upkeep of the land is solely in the hands of the farmer, although he meets with Hazel to discuss a range of issues on a regular basis. 30

The newest part of the PDS operation is a riding equipment and supplies shop. Opened at the beginning of September 2004 the shop sells items such as riding boots, helmets, clothing, bridles, saddles and equipment for the care of horses. It also sells horse feed (see Table 1). The shop has already become hugely popular among the large numbers of horse owners and riders in the local area. Just last week, Hazel was approached by Claire Bayley, the owner of another but much smaller riding stables, interested in buying horse feed from PDS. PDS sells a 20 kg bag of horse feed for £11.50 in its shop. Claire wants to pay only £9.00 per bag for a special order of 80 bags per month for 12 months. Hazel is not sure whether she can afford to sell at this price, although she can appreciate other benefits of accepting this special order. One of these benefits is that PDS would save £120 per month on its delivery costs from its supplier due to higher bulk ordering. 35  
40

Initially, Hazel thought that the shop would be a very small-scale venture that would just bring in a little bit of extra revenue and increase public awareness of the stables. However, Hazel was now having to spend more and more time trying to manage the shop. One area of particular concern was stock control. 45

“I seem to spend most of my day keeping a check on what is sold in the shop and then placing orders for more stock from all our different suppliers,” complained Hazel during a morning coffee break with Robert, her senior instructor. “The only way to avoid spending all of my day on shop business is by buying more stock than I really need so that it does not matter if I do not have time to order more stock straight away. The problem is that it is very difficult to predict what customers come in to buy and we still get people asking for items that we don’t stock. When I then do get these items in stock, nobody seems to want them. We may well be earning a lot of revenue from the shop but what with the high stock levels and slow-moving lines I am sure we are not making any profit from it.”

“I thought you started this business to get away from desk work and yet you now seem to spend all your time poring over figures and order books,” replied Robert. “You really need to get back to spending more time working with the horses that you love so much. I don’t have the experience of business that you have but I’ll tell you what I think you should do.”

However, just at that moment there was shouting coming from outside in the stable yard. Before Hazel and Robert could get up to investigate, the shop door opened and Gemma Braybrook, one of the full-time stable staff, stormed in.

“That’s it, I’ve had enough. I can’t stick this job anymore,” cried Gemma. Robert made his excuses and returned to the stables, leaving Hazel to find out what the problem was.

“I love working with horses, but there is so much about this job that I hate,” said Gemma. “The early mornings and long hours, the poor pay and worst of all the lack of respect from the people who come for the riding lessons. For example, that bloke who just had a lesson. I was only trying to give him advice about how to sit in the saddle and he swore at me. I thought they came here to learn how to ride, but they often ignore me. I might not have any fancy qualifications but I have been riding for longer than most of the people I teach.”

Once Hazel had calmed Gemma down and sent her home for the day, Hazel began to think about what Gemma had said and considered whether it was symptomatic of another problem that PDS faces. Hazel employs five full-time staff and six part-time staff. In addition, during the school holidays, there can be as many as five school children helping to clean out the horses and exercise them. Table 2 records those staff that have left PDS in the last two years. It is not unusual in this industry to have a high labour turnover and difficulty in attracting good quality staff, but Hazel would like to find ways of minimising this problem rather than just accepting it.

Hazel agrees with Gemma’s summary of the disadvantages of this sort of work. The high cost of keeping horses prevents Hazel from increasing wages and there is nothing she can do about the traditional need for horses to be fed and mucked out early in the morning. However, she feels that help can be provided for the staff in the way of more formalised training. To decide the best way forward, Hazel has set up a meeting with a consultant from the British Horse Society to advise on the sorts of training and qualifications available both on- and off-the-job. Her only concern is that from previous experience as a manager, there are usually disadvantages as well as advantages when making changes to the operation of a business.

**Table 1 – Extract from sales data for the shop for February 2005**

Product	Units sold	Total cost of goods sold (excluding delivery)	Total revenue	Units in stock at end of month
Mid-price riding boots	11	£275	£390.50	20
Riding helmet	28	£616	£812	14
Synthetic saddle	2	£320	£420	6
Waterproof leggings	35	£315	£525	58
Horse feed (20kg bag)	168	£1428	£1932	42
Head collars & lead ropes	31	£108.50	£217	0
Riding crop	47	£141	£281.53	88

**Table 2 – Summary of Labour Turnover for the past 2 years**

Name	Length of service	Full-time or part-time	Reason given for leaving
Doris	2 months	FT	Not known
Carmen	4 months	FT	Lack of training opportunities
Kate	1 year	PT	Gained a full-time job
Jim	1 month	PT	Did not like early mornings
Ronel	8 months	FT	“Could not deal with customers”
Candy	2 years 1 month	FT	Not returned from maternity leave
Indira	3 months	FT	“Not gaining any real experience”
Rose	1 month	PT	Wanted some training
Barry	11 months	PT	Dismissed – frequently late & lazy
Annette	3 years 10 months	FT	Joined a high street store as a trainee manager
Dipak	2 months	PT	Wanted more pay
Gianfranco	2 years	FT	Wanted a “career”
Pat	1 week	PT	“Got a better job”
Kieran	7 months	PT	Gained a university place studying Equine Management





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