

**ADVANCED GCE UNIT
BUSINESS STUDIES**

Business Thematic Enquiry

MONDAY 22 JANUARY 2007

2879

Afternoon

Time: 1 hour 30 minutes

Additional materials: Answer Booklet (8 pages)

Candidates may use calculators in this examination.



INSTRUCTIONS TO CANDIDATES

- Write your name, Centre number and candidate number in the spaces provided on the answer booklet.
- Complete both tasks.
- If you use extra sheets of paper, fasten these sheets securely to the answer booklet.
- Read the tasks carefully and make sure you know what you have to do before starting your report.

INFORMATION FOR CANDIDATES

- The number of marks is given in brackets [] at the end of each task.
- The total number of marks for this paper is 90.
- You will be awarded marks for the quality of your written communication.

This document consists of **7** printed pages and **1** blank page.

Ashwater Garden Centre Ltd (AGC)

Ashwater Garden Centre (AGC) is a family business which has been operating with moderate success for more than 20 years. It developed originally from the owner's gardening hobby but has expanded very little in the last five years (see Table 1).

Table 1: AGC Net Profit (2002–2006)

Year	(£'000)
2002	20,000
2003	20,800
2004	21,750
2005	22,400
2006	23,400

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It is now owned by two brothers, Andrew and Simon Brooks, and their sister Rachel Parmar. Each of the three owners has one third of the shares.

The market has changed rapidly in the last five years and making a profit has become hard work, with all three owners working far longer each day than they used to. There are too many garden centres in the area. All garden centres have suffered because much of their business has been lost to DIY firms such as B&Q and Focus. These larger businesses benefit from economies of scale. Many of the local, smaller garden centres have replaced their lost business by extending into other segments of the market, such as garden sheds and patio building, or by adding leisure attractions to their range of products and services.

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AGC's problem is made worse by the seasonal nature of the business. Most of the revenue comes in from late March through until September, and out of season there are often severe cash flow problems. Andrew is the Managing Director and he estimates that the business can just about survive this year. He knows the time must be used to find market opportunities which will both increase net profit and reduce the seasonality of the business.

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There is no possibility of internal finance for any new venture, but the three directors are each prepared to increase their shareholding. All of them want to keep the equal balance within the business, so they have agreed that each could provide £40,000. Any finance above their £120,000 would have to be found by either borrowing or by finding additional shareholders to invest in the private company. None of them is prepared to consider 'going public'.

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Prior to the Board meeting on 1 September 2006, several options had been considered but these have subsequently been reduced to two. The intention is that one of these projects should be developed and come into operation in October 2007.

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Option 1: Going into the Christmas Gift Market

This would require a permanent building with effective lighting and heating. The building could be dual purpose if it was largely a glass construction, since it would both provide new trade from November to December and an opportunity to offer a wider range of garden and house plants during the rest of the year. This option would also require storage space. The estimated costs for this option are shown in Table 2. 35

Table 2: Costs for Option 1

Set-Up Costs	Cost (£'000)	Total Costs (£'000)	(£'000)	40
Preparation Costs	10			
Building	85			
Fittings	10			
Total		105		
Storage Room		15		45
Total Set-Up Costs			120	
Annual Running Costs				
Specially Purchased Stock	70			
Marketing	10			
Heating, Lighting	15			50
Insurance	5			
Additional Staff	20			
Total Forecast Running Costs			120	
Total Estimated Costs			240	

It is planned that the gift shop would be open from 1 November until the end of the second week in January. Three staff would be employed working part time from mid-October to the end of January. This would allow two weeks for training and shop preparation and two weeks at the end to convert the building to its Spring/Summer uses and to dispose of surplus stock. 55

Table 3 shows the forecast income which is based on some market research among existing customers and some discussions with friends who are in the Christmas gift market.

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Table 3: Forecast Income from Option 1

Week	Estimated Takings (£'000)
1	3
2	5
3	5
4	8
5	12
6	20
7	42
8	53
9	31
10	8
Total	187

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Option 2: Supplying and Erecting Garden Sheds

The selling of garden sheds would require a substantial amount of display space. There is sufficient land available for this purpose, but it would mean that the expansion of the business in gardening terms or the building of the Christmas gift shop would not be possible unless further land were to be purchased. 75

Sheds are bought for a variety of reasons. They are also bought in a wide range of sizes and designs. Although more are sold during Spring and Summer, it is not a highly seasonal market. Only a small number would be sold each month with a 100% mark-up on each shed sold. 80

AGC would have to prepare its own site at the garden centre and pay for the display sheds it would contain. Potential customers would be able to view the sheds on display, get advice, and then order the model they wanted. The sheds would be delivered from the suppliers to AGC. Many customers would collect the sheds and assemble them themselves. But research shows that 70% of all buyers would want AGC to erect the shed for them. The erecting service would add 20% to the price of the shed. 85

Prices of sheds vary in accordance with both size and materials used. The most expensive which AGC intend to stock will be priced at £1,200 and the least expensive at £90. Estimating total annual revenue for this option is very difficult, so Simon can suggest little more than that it would be somewhere between £75,000 and £150,000 per annum, including income from erecting sheds. 90

If Option 2 is chosen, one of the members of staff, who would have otherwise been made redundant after 10 years of service, would be offered the job of running the site and trained to do so. He is currently paid £14,000 per annum but would be offered £16,000 per annum if he accepted the new job. Table 4 shows the set-up costs of Option 2. 95

Table 4: Costs for Option 2

Item	Costs (£'000)	Costs (£'000)
Preparing Site	29	
Site Security	12	
Office	5	
Display Sheds	30	
Lorry	4	
Training	2	
Fittings	4	
Total		86

100

105

Annual running costs of the venture would include salary, marketing, insurance and vehicle use and maintenance. These are estimated at a total of £40,000.

Required:

Write a report to the Board of AGC advising which of the new ventures should be undertaken. In writing your report you should use the evidence given in the case. You should also use any evidence you have gathered from your study of the problems and strategies associated with coping with seasonality. The title of your report must be:

In which option should AGC invest during the coming year?

Complete both tasks below:**Task 1**

Write a plan for your report in which you make clear:

- (i) the problem as you see it and the need to solve it;
- (ii) the context in which this problem must be solved;
- (iii) your objectives in your approach to the problem;
- (iv) any assumptions you make and the reasons for them.

You are advised to spend not more than **15 minutes on this task.**

[10]

Task 2

Write your report.

In it you must satisfy the criteria on which the assessment is based.

You should ensure that you:

- (i) provide terms of reference for the report;
- (ii) select appropriate evidence for this task. You should use evidence from the case, from business theory, and from work you have done in preparation;
- (iii) present and analyse the evidence logically, in line with the objectives you set and the assumptions you made in the plan;
- (iv) consider the situation and arrive at a supported recommendation.

[80]

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