

**ADVANCED SUBSIDIARY GCE
BUSINESS STUDIES**

2871

Businesses, Their Objectives and Environment

THURSDAY 22 MAY 2008

Morning
Time: 1 hour

Additional materials (enclosed): Answer Booklet (8 page)

Additional materials (required):
Calculators may be used



INSTRUCTIONS TO CANDIDATES

- Write your name in capital letters, your Centre Number and Candidate Number in the spaces provided on the Answer Booklet.
- Write your answers in the Answer Booklet.
- If you use additional 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.
- Answer **all** the questions.

INFORMATION FOR CANDIDATES

- The number of marks for each question is given in brackets [] at the end of each question or part question.
- The total number of marks for this paper is **45**.
- You will be awarded marks for the quality of written communication where an answer requires a piece of extended writing.

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

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Answer **all** questions.

- 1 Sophie Lewington is a sole trader. State **two** features of a sole trader. [2]
- 2 Outline **two** implications for HH of introducing information technology. [4]
- 3 **Other than information technology**, evaluate the factors which may affect the demand for HH's services. [14]
- 4 Analyse how HH might benefit from the setting of clear objectives. [9]
- 5 Sophie's idea (line 82) is that she should ask Judith to form a partnership with her.
Evaluate whether forming a partnership with Judith would be appropriate for Sophie's business. [14]

The Hamster Hilton (HH)

Sophie Lewington is 49 years old and lives with her twin sister, Emma, in a Yorkshire farmhouse that has been owned by the family for several generations. The farm itself no longer exists but the house and its two outbuildings are on a large plot of land in a quiet rural setting. Sophie is a writer and illustrator of books for young children. Her most popular character is 'the happy hedgehog' whose adventures have proved very popular with the under fives. 5

Although she has never thought of herself as a 'business woman', for the last four years Sophie has also run a small business called 'The Hamster Hilton' which she likes to refer to as 'HH'. HH is a boarding service for up to 25 animals, such as hamsters, and used mainly by pet owners while they are on holiday. Sophie has a separate bank account for HH for tax purposes, but until recently she has run the venture as much out of her genuine fondness for animals as to make a profit. Nevertheless, HH is a useful supplement to the income from her books, which is not regular. Sophie has recently started to think that she should be making a greater financial provision for her retirement. 10

Sophie makes a real effort to ensure that the animals in her care are content and healthy. Throughout their stay at HH their cage is placed in a small 'run' so that they have even more space than usual to move around. HH has become well known in the surrounding area. Demand is largely seasonal, and during holiday periods, HH is always fully booked. In fact, demand is so high that Sophie already has a waiting list, in case of cancellations, for both summer and Christmas. 15

The everyday operation of HH is rather chaotic. Sophie owns a computer that she bought in 1999 but only uses it for writing her books. All of HH's administration, from pet records to reservations, is done on scraps of paper. As a result, this has often led to 'double booking' but Sophie has always coped by temporarily placing the animal cages inside the farmhouse itself. This has not been popular with Emma. 20

There is also the issue of stock control. Sophie buys straw and animal food in bulk at irregular intervals. As a result, sometimes there is wastage and sometimes she runs short which means an 'emergency journey' to a supplier. Nevertheless, Sophie is happy with how she chooses to organise her lifestyle. 25

Emma is a self-employed sculptor and potter who works from the smaller of the farm's outbuildings. She helps Sophie out as a favour when HH is very busy. In return, Sophie occasionally assists Emma when she takes her products to craft fairs. 30

Although the farmhouse is picturesque, it is over 150 years old. Last March some cracks appeared in its walls which turned out to be from subsidence in the foundations. The builder who inspected it pointed out to the two sisters that the whole roof was in a very poor condition as well. He said that it would certainly need replacing within the next 18 months. 35

Although the repairs to the house's foundations will be inconvenient, most of the cost of fixing the subsidence will be covered by the insurance company. The repairs to the roof will not be. The increasing demand for HH's services has made Sophie think that the profit from a slightly larger HH could perhaps cover her contribution to the reroofing, as well as helping to provide for her retirement. She decided to ask the builder to quote for the construction of an extension to the outhouse where the cages are kept. 40

The estimate for the extension was £9500 which was more than Sophie had expected. Emma was sympathetic but not very forthcoming in terms of financial assistance.

Two weeks ago Sophie was helping Emma at a craft fair when, towards the end of the day, she thought she recognised someone behind a stall on the other side of the room. She walked over and she was right! It was Judith Baker, another children’s author whom she had met at a publishing convention in 2003. At the time they had struck up an immediate friendship, which had lasted for over a year before they had lost touch when Judith went to live abroad. Judith was delighted to see Sophie again and Sophie soon learned that Judith was now permanently back living in the UK and in a somewhat similar situation to her. As well as writing books, she was making and selling wooden boxes for hedgehogs to hibernate in. These ‘hedgehog houses’ earned her some extra income. Furthermore, she was living only about half an hour’s drive away from the Lewington’s farmhouse. After finding all of this out, Sophie explained her current situation. 45

“I’m glad you’re doing so well with HH, but what a shame about your house”, said Judith on hearing Sophie’s news. “But I’ve got an idea. Why don’t you try selling some of my hedgehog houses? Everyone loves hedgehogs. The sort of people who use your HH service are bound to be interested in them – and you’ll sell loads because of your hedgehog stories. Hedgehog House. Happy Hedgehog. HH. Plenty of scope for marketing phrases there!” 50

“Well I’m not sure. I’ve never really done much of that sort of ...” began Sophie. 60

“Look, I’m selling them here at £39.50 each,” interrupted Judith. “As a friend, I’ll let you have them for the bargain price of £25. You could sell them yourself for even more, say £45. That’s £20 profit on each one!”

“They’re all slightly different and they do look well made,” observed Sophie.

“Of course they are,” said Judith. “I’ve made them myself from a sustainable wood source. That’s a major selling point. I’ve sold loads today. I always do; they’re far better than any of the similar stuff you can buy.” 65

“It will be a bit of a risk. I’ll have to ...” started Sophie.

“... Think about it. Of course you will,” interrupted Judith again. “I don’t need an answer now – next week will do. I’ve got to leave in a minute anyway. Give me a call.” Judith handed over a business card. “Oh and check out my website. It’s there on the card. I’ve only had it for two years but it’s made a massive difference to my sales. What a difference a small technological change like that can make! I expect you’ve found that too. Anyway, there’s loads of stuff about hedgehogs on it that you can use to help you sell the boxes.” 70

Sophie wrote her telephone number on a piece of paper and handed it to Judith. “Here’s my number. I’ll certainly be in touch,” she said. She was too embarrassed to admit that she did not even have an Internet connection for her nine year old computer, let alone her own website. 75

As Sophie and Emma drove home, Sophie had a number of thoughts about HH running through her mind. She really did want HH to grow into a larger and more successful business. But how was she to achieve this? She also kept thinking about the consequences of growth. She suspected it could force several unwanted changes to her lifestyle. 80

Then she had an idea that seemed to solve all her problems.