



ADVANCED GCE BUSINESS STUDIES

Business Thematic Enquiry

2879

Candidates answer on the Answer Booklet

OCR Supplied Materials:

- 8 page Answer Booklet

Other Materials Required:

- Calculators may be used

Friday 19 June 2009
Afternoon

Duration: 1 hour 30 minutes



INSTRUCTIONS TO CANDIDATES

- Write your name clearly in capital letters, your Centre Number and Candidate Number in the spaces provided on the Answer Booklet.
- Use black ink. Pencil may be used for graphs and diagrams only.
- Read the tasks carefully and make sure that you know what you have to do before starting your report.
- Complete both tasks.
- If you use extra sheets of paper, fasten these sheets securely to the Answer Booklet.
- Do **not** write in the bar codes.

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 **90**.
- You will be awarded marks for the quality of your written communication.
- This document consists of **8** pages. Any blank pages are indicated.



**A calculator may
be used for this
paper**

Brunswick Farm Ltd (BFL)

Brunswick Farm is a small dairy farm owned by Charles and Dorothy Henton. The farm is in East Devon close to the coast. The farm consists of four large fields and three smaller ones. It is run with the help of the Henton's son, Henry, and their two daughters, Rachel and Sandra. At busy times of the year local casual labour is employed.

The time has come to face the problem of rapidly falling profits and likely future losses. Manor Farm is a much larger farm which surrounds Brunswick Farm. The Hentons are under great pressure to sell their farm to this financially successful business. Knowing that Henry wants to keep the family tradition going, Charles and Dorothy will not sell Brunswick Farm but know they must change the way they make a living. 5

There are two options which they are considering. Both options would involve selling off the dairy herd and the specialist machinery and renting some of their fields to Manor Farm. It is estimated that the sale of the herd and equipment will raise £30,000 and that this will be used to help meet the conversion costs of either option. 10

Option 1

BFL would rent out all its fields except the large one next to the farmhouse which would become a garden. In this area fruit and vegetables are to be grown for the commercial market. The two barns and the dairy would be converted into holiday accommodation for which there is a steady demand in the area. This would provide four family cottages, each capable of housing up to six people; and two smaller cottages, each for up to two people. Dorothy is prepared to offer lunches and evening meals in the farmhouse. If this option is chosen, the two daughters would be responsible for the cleaning and laundry. Maintenance and repair would be undertaken by father and son, apart from work for which professional services would be required. 15 20

The initial marketing of this option would be expensive and so the family would enter into a contract with a specialist holiday cottage rental agency. The cost of this contract would be 5% of net annual income from the cottages. 25

The conversion of the farm buildings to cottages, together with necessary fittings and furniture, plus the costs of preparing the drive and pathways is estimated at £190,000. Annual running costs are shown in Table 1 and income from the option in Table 2. Revenue is calculated on the assumption that the accommodation would be available for 10 months of the year and 90% booked in the period from 1 June to 30 September. Other income may come from occasional bookings and from long winter lets of the two smaller cottages. 30

Table 1: Annual running costs of Option 1

Annual running costs	(£'000)	(£'000)
Wages	60	
Servicing cottages	7	
Utility services	16	
Insurance	15	
Other costs	12	
Annual running costs		110

Table 2: Estimated annual income from Option 1

Annual rental income	(£'000)	(£'000)
4 family cottages	120	
2 smaller cottages	30	
Total rental income		150
Land rental income		10
Net other income		5
Total		165

BFL has, however, been advised that the budgeted income, though reasonable for an established business, may be optimistic for the first year of operation.

Option 2

BFL would become a market garden and farm shop with some 'pick your own' business. There are two market towns close by. One has market days on Tuesday and Friday and the other on Wednesday and Saturday. BFL would have a stall at each of these markets using local casual labour to supplement the family presence. There are no farm shops close by but the Hentons have visited many over the years and have observed that some are very small, selling only farm produce. Others are very sophisticated enterprises with an extensive range of products and services. This suggests to the Hentons that they can start small with ample potential for growth.

The family thinks that for this option they would need the three small fields and the large one beside the farmhouse. The other fields would be rented to Manor Farm. The large field retained would be devoted to growing a range of vegetables. Two of the small fields would be a 'pick your own' fruit area and the third an orchard which would also provide space to keep free range hens.

This option would involve the demolition of the barns and the conversion of the dairy into the farm shop. The provision of a car park and the preparation and cultivation of the fields would also be necessary. Additionally, BFL would also need to buy a reliable van. The total cost of these changes is estimated at £200,000.

Table 3: Annual running costs of Option 2

Annual running costs	(£'000)	(£'000)
Wages	90	
Operating costs	43	
Transport and insurance	19	
Casual labour	15	
Market licences	5	
Stock purchases*	120	
Wastages	20	
Maintenance	15	
Other costs	28	
Annual running costs		355

*Initially, many products would have to be bought in but this cost would reduce as BFL's own products became available.

Table 4: Estimated annual income from Option 2

Sales income	(£'000)	(£'000)
Farm shop	175	
Markets	600	
Pick your own	20	
Total sales income		795
Rental income		5
Annual income		800

Charles and Dorothy favour Option 1. They see it as a steady income which would reduce the work load for them. They worry about the employment problems which might occur and the effect of a poor season on the 'pick your own' side of the business in Option 2. Henry, Rachel and Sandra favour Option 2. They see work that they might enjoy more, and the possibility of responsibility for them instead of just working for Dad. All three of them stress that they have been brought up as farmers and Option 2 still involves working the land for a living.

The income estimates for Option 2 are also optimistic but potential long term rewards are high and the opportunities for growth and development are much greater than those for Option 1.

Required:

Write a report for BFL 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 a study of strategies for diversification. The title of your report must be:

Which option provides the best way to ensure BFL's survival?

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.

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