

OXFORD CAMBRIDGE AND RSA EXAMINATIONS

General Certificate of Secondary Education

BUSINESS STUDIES A

1951/7 (CS)

CASE STUDY

1951/8 (CS)

FOUNDATION TIER / HIGHER TIER

PRE-RELEASED MATERIAL FOR EXAMINATION IN SUMMER 2006

This material may be given to candidates at any time after 1 January 2006.

INSTRUCTIONS TO TEACHERS

The case study may be given to candidates at any time after 1 January 2006.

INSTRUCTIONS TO CANDIDATES

You **may** make yourself familiar with the case study before you take the question paper.

You may **not** take notes into the examination.

A clean copy of the case study will be given to you with the question paper.

This case study consists of 12 printed pages.

KING & KHAN ESTATE AGENTS

King & Khan (K & K) is a firm of independent estate agents. It provides services to people wishing to sell their houses. These services include:

- advising sellers on house prices
- advertising houses for sale
- contacting potential buyers
- negotiating with potential buyers on behalf of sellers
- carrying out surveys for building societies
- valuing properties and land.

5

Like most other estate agents, King & Khan receives a fee from the sellers if it sells their houses. This fee is usually between 1% and 3% of the house price.

10

King & Khan has offices in five small towns within commuting distance of a large city in central England, as shown in Fig. 1.

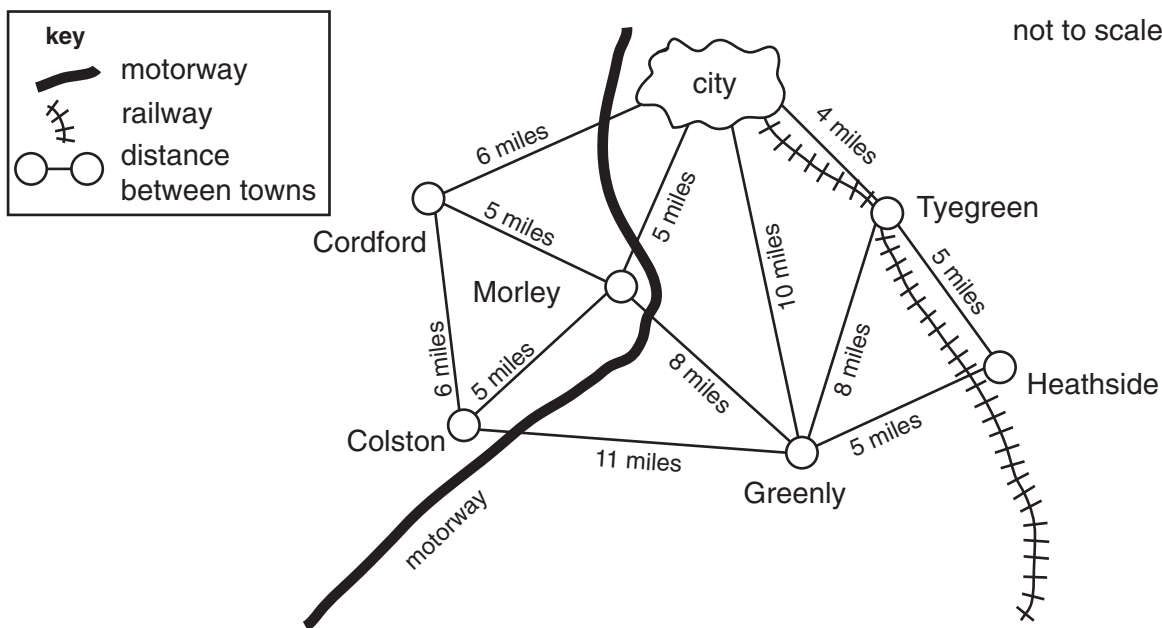


Fig. 1

The area is semi-rural with farming communities, small picturesque villages and industrial development mostly for light industry and storage. Two of the towns, Morley and Cordford, are likely to grow considerably in the next five years. New housing estates on the edge of each of the two towns are to be built by nationally-known housebuilders.

15

King & Khan was set up as a partnership in 1996 by Becky King and James Khan. They had both worked for other estate agents in the local area, and also in London, for a number of years and decided it was time to establish their own business for two main reasons:

- increasing home ownership – 70% of all households now own their own houses, an increase of 25% over the last 30 years 20
- government introduction of schemes to encourage first-time buyers.

Becky and James started their business in Morley. They concentrated at first on selling houses within the town, usually in the lower price range, £60 000 to £150 000. By 2003, they had opened offices in Greenly, Colston, Cordford and Heathside as well. In July 2006, their sixth office is due to open in Tyegreen, in a street where five other estate agents are located. 25

Despite competition from larger firms of local estate agents and also estate agency firms supported by banks and building societies such as Your Move and Halifax, all with offices in its area, King & Khan has been quite successful. Many of the properties King & Khan offer for sale are sold within 12 weeks. Although King & Khan uses a variety of methods of advertising properties for sale, some more difficult properties can take up to a year to sell. The partnership has a good reputation for personal service and attention to detail. In order to enhance its reputation, Becky and James are considering the introduction of additional methods of quality assurance. 30

Revenue figures for 2005 (as shown in Resource Sheet 5), with the exception of the Cordford office, were quite encouraging and showed a 10% overall rise from 2004. 35

Each office has a manager, at least one negotiator (people who organise the sale of property), and two administrative staff. In addition, part-time staff are often employed to show people around properties. Becky is the manager at Morley but is also responsible for Greenly and Colston. James is the manager at Heathside and oversees the Cordford office. Both have been involved in the setting-up of the Tyegreen office. 40

Over the years, Becky and James have made considerable use of technology in their business in order to maintain a competitive edge and to achieve high quality service for customers. This technology includes word processing, digital cameras, databases and mobile phones. Also, the increasing use of the Internet by many prospective clients means they must constantly review the emphasis of King & Khan's marketing strategy. Despite this increase in the use of technology, Becky and James are still concerned about the need to revise their advertising methods to sell properties. 45

At the same time they still have to carry out the repetitive tasks associated with the selling of properties: 50

- measuring properties
- preparing sales literature
- mailing property details to clients
- arranging and supervising viewings of properties
- answering enquiries 55
- maintaining the website.

Over the last 10 years, the range of services the business offers has grown. King & Khan is now selling a wider range of residential properties as shown in Resource Sheet 2. It recently sold a large house in a much sought-after village for £650 000 and has several properties on its list priced at over £400 000. King & Khan is also the preferred estate agent for a housing development in Greenly. 60

King & Khan has also built up a significant letting business, based at the Heathside office, covering a wide range of properties such as those as shown in Resource Sheet 3. King & Khan works on behalf of owners who wish to rent out their houses and flats. It advertises the properties, looks for tenants and agrees terms for renting. For this, King & Khan receives a fee from the owners based on a percentage of the amount the owners receive in rent from their tenants. 65

The demand for rented properties from many kinds of people has grown considerably. Fig. 2 shows the different categories of people renting properties.

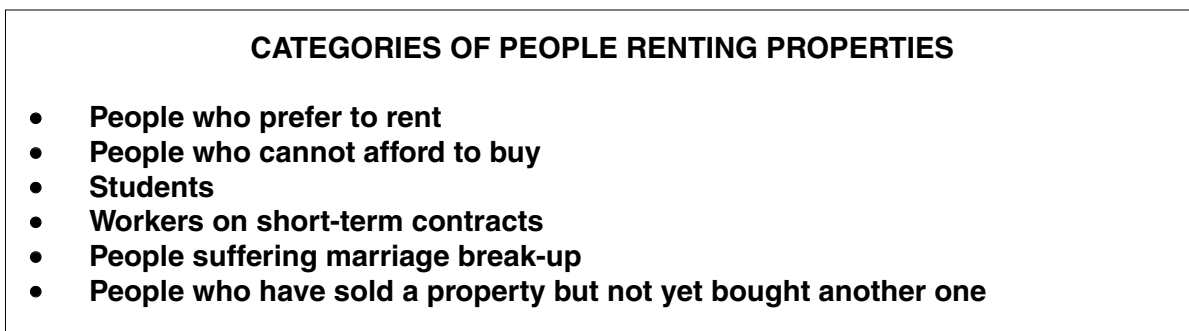


Fig. 2

A number of small houses in Heathside, as well as several flats in a new development in Colston, have been bought by people who plan to rent them to tenants. This has meant that prices for these kinds of properties have increased significantly between 2000 and 2005 because demand exceeds supply. 70

Over the last two years, King & Khan has also been developing another enterprise – the sale of business and office premises. 75

Despite the success of King & Khan and the fact that they enjoy their work, owning an independent firm of estate agents presents many ongoing problems for Becky and James. These include:

- No sale, no fee.
- Variable rates of commission. 80
- Cash flow problems resulting from 'dead' times of the year, eg few houses are sold in December in the weeks before Christmas. People are also not interested in house purchase in August, but September is a busy month for house buying with people hoping to complete and move by Christmas.

- The variable supply of houses for sale. Many people try to sell their properties in the Spring. As Winter approaches, there are fewer houses made available for sale. 85
- Difficult clients, both buyers and sellers. Sellers will often move to other agents if their property is not sold within four months. Unfortunately, there are some people who make a hobby of visiting other people's properties with no intention of buying.
- Competition from larger chains of estate agents operating in the local area. 90
- Long working hours – 6-day week, 9-hour working day.
- High operating costs such as wages and salaries, advertising, as well as rents in high street locations.
- Legislation relating to health and safety and consumer protection.
- Becky and James need to keep a close watch on housing market changes such as those shown in Resource Sheet 1. 95

As well as these problems, Becky and James have read a newspaper article (see Fig. 3), about house prices and are wondering what the implications of it are for their business.

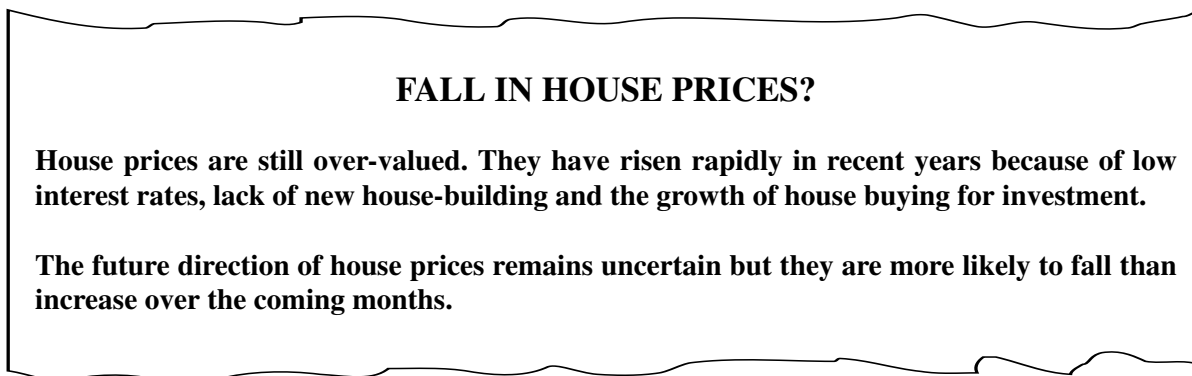


Fig. 3

Becky and James have recently been considering the possibility of selling French and Spanish properties from their office in Morley. They have been considering the following questions. 100

Is there sufficient demand for properties in France and Spain from people in King & Khan's local area?

What problems might they have if they expand their business into other European Union countries? 105

Should they be looking for another partner? Should they be thinking of changing their business into a private limited company? How else might they finance this expansion?

At the same time, the final preparations for the opening of the new office at Tyegreen are pre-occupying them. The premises have been refurbished. The Manager, Alan Maynard, has been appointed. Next week, Becky, James and Alan are interviewing candidates for the job of negotiator at the office. There have been seven applicants as shown in Resource Sheet 4. Becky and James' next job will be to shortlist a number of the applicants. 110

It is hoped that, by the time the Tyegreen office opens in July, the following staff will have been appointed (see Fig. 4). 115

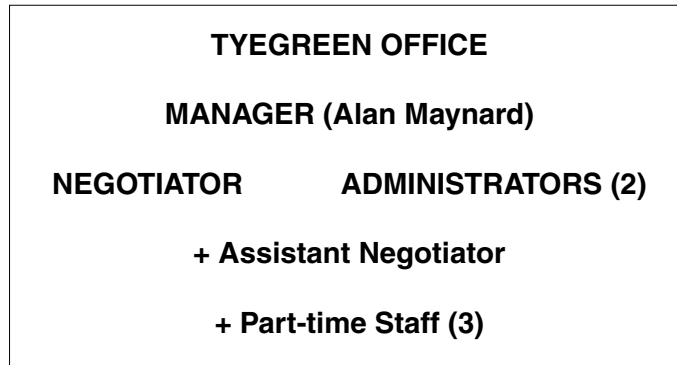


Fig. 4

The Cordford office has been giving Becky and James cause for concern for some time. The Manager, Jane Draper, has been off work for some time because of stress. One of the negotiators left last week saying that the other staff, particularly Paul Jenks, an Office Administrator, were very difficult to work with and that working conditions were poor. It is noticeable that sales of properties made by that office have fallen in 2005 as shown in Resource Sheet 5. Clients are also commenting about the poor service and two have recently taken their business to other estate agents, saying that no effort had been made to sell their houses. Becky and James have arranged to meet to discuss what action to take. 120

A month ago, Becky and James received a letter from a well-known firm of estate agents offering to buy their business for £1.5m. They have been far too busy to consider the implications of this offer and have written back asking for much more information. They need to discuss the offer and make a decision in case their staff learn about it unofficially. 125

RESOURCE SHEET 1

The following announcements were made in the national press in 2005.

A

An article has been removed due to third party copyright restrictions.

Details:

An article called 'Social Homebuy' about first time buyers being offered a 75% stake in a housing association property or a home on the open market.

B

An article has been removed due to third party copyright restrictions.

Details:

An article called 'Houses for sale for £60000 in London and South-East England' about English Partnerships buying land to build cut-price homes.

C

An article has been removed due to third party copyright restrictions.

Details:

An article called 'Housing projects scrapped?' about English Partnerships delaying or scrapping housing projects in central England.

D

An article has been removed due to third party copyright restrictions.

Details:

An article called 'Homebuy' about talks with mortgage lenders to increase the size of the scheme for allowing housing association tenants to buy their own home.

E

An article has been removed due to third party copyright restrictions.

Details:

An article called 'Planning approval becomes more difficult' about obtaining planning permission for small housing developments becoming more difficult.

RESOURCE SHEET 2

KING & KHAN
ESTATE AGENTS

LIST OF SELECTED PROPERTIES FOR SALE

GREENLY – Back Lane

A detached character cottage in a quiet part of this much sought-after town. 3 bedrooms, 2 bathrooms, 1 en-suite, sitting room, dining room, study, fitted kitchen, utility, detached garage, garden.

Price Guide: £620 000

COLSTON – Oswald Park

Brand new 4-bedroomed, 2-bathroomed house on this small development, large family room, 2 reception rooms, fitted kitchen, utility, integral garage and landscaped garden.

Price Guide: £480 000

TYEGREEN – Binwood Lane

Well-built family house offering flexible accommodation. 3 bedrooms, 2 bathrooms, large loft area, 2 reception rooms, kitchen, workshop and garage, attractive gardens.

Price Guide: £380 000

CORDFORD – Broad Street area

3-bedroomed detached bungalow, bathroom, sitting/dining room, kitchen, full double glazing, small conservatory, garage and extensive gardens. Newly on the market.

Price Guide: £320 000

GREENLY – The Meadows

3-bedroomed semi-detached house on this sought-after development. 2 bathrooms, 2 reception rooms, fitted kitchen, garage and small garden with patio.

Price Guide: £250 000

COLSTON – Headley Road

3-bedroomed bay-fronted terraced house. Bathroom, sitting/dining room, kitchen, lobby, rear garden. Suitable for renovation by a property developer.

Price Guide: £175 000

MORLEY – High Street area

Period mid-terraced house, 2 bedrooms, shower/WC, living room, kitchen, small rear garden. In need of modernisation. Suitable for first-time buyer.

Price Guide: £84 000

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Details:

Images of the houses which are advertised

RESOURCE SHEET 3

KING & KHAN ESTATE AGENTS

SELECTED PROPERTIES TO LET

CORDFORD

5-bedroomed, 3-bathroomed detached house in quiet street. 3 reception rooms, newly fitted kitchen, utility, study, double garage, large garden front and rear.

£1300 pcm

COLSTON

4-bedroomed fully furnished house, 2 en-suite bathrooms, 1 further bathroom, 3 reception rooms, fitted kitchen, garage, small garden.

£1000 pcm

HEATHSIDE

3-bedroomed detached family house, 2 bathrooms, kitchen/diner, lounge, garage, garden front and rear, unfurnished.

£800 pcm

GREENLY

2-bedroomed cottage, bathroom, sitting room, dining room, kitchen, garage, attractive garden, unfurnished.

£600 pcm

CORDFORD

3-bedroomed semi-detached bungalow, 2 bathrooms, sitting/dining room, fitted kitchen, parking area and small garden, unfurnished.

£550 pcm

HEATHSIDE

2-bedroomed flat, bathroom, living room, fitted kitchen, furnished, parking area at rear of property.

£400 pcm

MORLEY

2-bedroomed terraced house, bathroom, kitchen, living room, small garden, unfurnished.

£300 pcm

MORLEY

1-bedroomed ground floor flat, bathroom and separate WC, living room, kitchen, parking space.

£300 pcm

MORLEY

1-bedroomed flat in large block, shower and WC, living room, kitchen, parking space, unfurnished.

£275 pcm

pcm = per calendar month

RESOURCE SHEET 4

APPLICANTS FOR THE JOB OF NEGOTIATOR
AT THE TYEGREEN OFFICE

7 images of the candidates on this page have been removed due to third party copyright restrictions

CANDIDATE 1

BELINDA SMITH



Aged 24, single, unemployed at the moment as she has just moved to Morley. Has worked in Birmingham as an administrator in a well-known firm of estate agents.

CANDIDATE 2

PHILIP LAL



Aged 48, married with two children. Has worked for an estate agent in Colston as a negotiator for the last five years. Would like to work in Tyegreen where he lives.

CANDIDATE 3

SAM TANG



Aged 22, single, working in Tyegreen in a local supermarket as a management trainee. Has decided that retailing is not the career for him and would like to try something else.

CANDIDATE 4

MARGARET BETTS



Aged 37, married with two school-aged children. Extensive experience in estate agency work but worked only part-time (in King & Khan's Morley office) while her children were young. Now wishes to obtain a full-time job.

CANDIDATE 5

TOM OLONGA



Aged 58, married with three grown-up children. Has worked in several estate agents for the last 30 years. At present he is manager of a branch of a rival firm of estate agents.

CANDIDATE 6

BRIAN FISHER



Aged 35, divorced. Works in a local bank as a customer relations manager. Wants a career change and does not want to move house.

CANDIDATE 7

MARIA PIROTA



Aged 40, married, fluent in three languages. Has recently arrived from Spain where she worked in an estate agency specialising in selling properties to UK citizens.

RESOURCE SHEET 5

EXTRACT FROM THE PERFORMANCE FIGURES FOR 2005
FOR EACH FOUR MONTH PERIOD FOR EACH BRANCH

JANUARY – APRIL 2005

	COLSTON	CORDFORD	GREENLY	HEATHSIDE	MORLEY	TOTAL
Number of residential properties sold	30	32	34	38	34	168
Revenue from residential property sales	£60 000	£70 000	£70 000	£90 000	£70 000	£360 000
Number of business properties sold	4	3	3	4	3	17
Revenue from business property sales	£14 000	£10 000	£10 000	£14 000	£12 000	£60 000
Other Revenue	£10 000	£8 000	£8 000	£24 000*	£10 000	£60 000

MAY – AUGUST 2005

	COLSTON	CORDFORD	GREENLY	HEATHSIDE	MORLEY	TOTAL
Number of residential properties sold	36	25	40	43	40	184
Revenue from residential property sales	£80 000	£60 000	£90 000	£100 000	£90 000	£420 000
Number of business properties sold	6	2	4	5	6	23
Revenue from business property sales	£25 000	£8 000	£20 000	£22 000	£25 000	£100 000
Other Revenue	£15 000	£8 000	£12 000	£30 000*	£15 000	£80 000

SEPTEMBER – DECEMBER 2005

	COLSTON	CORDFORD	GREENLY	HEATHSIDE	MORLEY	TOTAL
Number of residential properties sold	30	17	32	33	30	142
Revenue from residential property sales	£66 000	£38 000	£68 000	£68 000	£70 000	£310 000
Number of business properties sold	5	1	4	4	4	18
Revenue from business property sales	£22 000	£4 000	£16 000	£18 000	£20 000	£80 000
Other Revenue	£14 000	£6 000	£12 000	£28 000*	£10 000	£70 000

* includes figure from rental

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