



Cambridge Pre-U

BUSINESS AND MANAGEMENT

9771/01

Paper 1 Business Concepts

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INSERT

2 hours 45 minutes

INFORMATION

- This insert contains the case study.
- You may annotate this insert and use the blank spaces for planning. **Do not write your answers** on the insert.



This syllabus is regulated for use in England, Wales and Northern Ireland as a Cambridge International Level 3 Pre-U Certificate.

This document has **4** pages. Blank pages are indicated.

Style and Beauty Limited (SB)

SB was formed last year by the takeover of Hairaiser Salons by Plaza Hair and Beauty. SB now operates 60 salons in the Midlands, each of which still bears its original business name. The Plaza salons offer a range of competitively priced hair and beauty services to women. The Hairaiser Salons offer just hairdressing services to both men and women, at low prices that rivals find difficult to match.

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The former sole owner of Plaza Hair and Beauty is Leah Carlisle. She is now the Managing Director of SB and the majority shareholder. She has further plans to expand the business by offering a complete 'head to toe' beauty service in a new prestigious salon.

Location of a new salon

Leah believes the site chosen for the new salon will be important to its success and she has identified two potential locations. 'We will be offering the most advanced hair and beauty therapies to discerning, wealthy customers. This will be a new market segment for SB,' she reported to a journalist from a hair and beauty industry focused magazine. Leah and the Finance Director have prepared the data shown in Table 21.1. Leah is also aware that qualitative factors will be important in the choice of location too.

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Table 21.1: Site information and forecast financial data for the two locations

		Location S	Location T
Site		Centre of town; low local unemployment; close to other hair and beauty salons.	Semi-rural area; many high-income residents; plans exist to develop thousands of houses within 5 miles.
Initial cost of 5-year lease on building and equipment		£1.5m	£0.9m
Annual net cash flows (£m)	Year 1	0.4	0.3
	Year 2	0.6	0.6
	Year 3	0.7	0.6
	Year 4	1.2	0.7
	Year 5	1.5	1.1
Payback period		See Q21(a)(i)	2 years
Average annual profit		£0.58m	£0.48m
Average annual rate of return		See Q21(a)(ii)	53.3%

Marketing the new salon

Leah recognises the need to develop a different marketing strategy for the new, prestigious salon. She told directors: 'The new salon needs to stand out and develop its own brand identity. A new marketing strategy is needed to differentiate it from competitors and our existing salons.'

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Planning workforce numbers

Leah aims to expand the business rapidly but not at the expense of long-term profitability. Labour costs last year were 45% of total business costs. 'Ours is a labour-intensive industry. In my experience high wages attract the best employees,' she told the other directors recently. 'I have visited five salons this week and two reported that they were fully booked for the next four weeks whilst the other three had some workers being idle for up to two hours per day. Demand peaks occur at different times in different locations,' she continued. 20

A recent staff audit indicated that employees were very specialised but inflexible and lacked multi-skilled training. Leah wants to discuss with directors the introduction of more part-time employment contracts. The Human Resources Director thinks that SB should go further and encourage a more entrepreneurial culture by 'renting chairs' to self-employed hairdressers in some salons. She told Leah: 'It would cut fixed wage costs and reduce the break-even point of the salons.' 25

'The way things are done around here'

During some of her recent visits to Hairaiser salons, Leah has noticed key differences between these and the Plaza salons. These differences include the leadership styles used by salon managers, attitudes to customer service, employment contracts and waste disposal practice. Hairaiser managers do not use a team work approach but allocate work without consultation. During busy periods customers are turned away without being asked to make an appointment at another time. Hair stylists are on full-time contracts, with a low basic pay and share all tips. No waste is recycled by these salons as Hairaiser had never been prepared to pay the recycling charge to the local authorities. Leah was told by one salon employee: 'It's easier for us as we just dump all the waste in one bin. All my colleagues like working here. We know what is expected of us and we have security. It's the way things are done around here – I hope you are not going to change things!' 30
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