



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

**Tuesday 22 June 2010
Morning**

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 the 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 **4** pages. Any blank pages are indicated.



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

Home and Garden Services Ltd (HGS)

John and Amy Baxter are the only shareholders in Home and Garden Services Ltd (HGS). They have run a successful business in Oakford for 15 years, meeting the needs of local consumers both within and outside their homes. John does all the gardening and minor repair and maintenance jobs. Amy is a home interior designer. They have a small shop on site offering a range of 'do it yourself' and gardening products. They employ two part-timers to run the shop and employ additional staff where any job requires assistance. Annual turnover has been rising slightly faster than inflation over the past five years and is currently at £140,000. John's activities contribute about 70% of the annual turnover and Amy's about 30%. Net profit after tax last year was £30,000. 5

Most of the business comes from customer recommendations and in response to regular advertisements placed in local publications. John is restricted in the work he can agree to take on; he is only able to accept small gardening, building and general maintenance and repair jobs. Many of the jobs he would like to accept require support from casual labourers. However, it is not always easy to find such employees, so potentially profitable jobs have to be rejected. 10

Amy's side of the business is growing because average disposable income in the area is fairly high and five large private housing estates have been built locally in the last 10 years. John and Amy agree that there is a real opportunity for growth in their business but disagree about the way in which this should happen. 15

To enable growth John needs to employ at least one other full-time person with skills that will add to the capabilities of the business. Amy needs to employ and train one full-time worker with good home furnishing skills. The estimated initial costs of development are shown in Table 1 and the annual running costs in Table 2. 20

Table 1 – Expansion Costs

John's	£	Amy's	£
Recruitment	800	Recruitment	800
Training	1,000	Training	1,500
Equipment	2,000	Equipment	1,200
Van	1,000	Car	2,000
Total	4,800	Total	5,500

Table 2 – Additional Annual Running Costs

John's	£	Amy's	£
Wages	18,000	Wages	18,000
Transport	3,000	Transport	2,000
Other costs	6,000	Other costs	4,000
Total	27,000	Total	24,000

There is more competition on John's side of the business than on Amy's but John has a very good reputation in the area. Amy is still building her reputation. Because John's recruit would significantly increase the number and types of jobs he could accept, he estimates that his turnover would increase by 30% in the first year and by 10% per annum thereafter. Amy knows that opportunities 25

for her line of work exist because she has been turning customers away. Her estimate is that the turnover she contributes would double in the first year and increase by 10% per annum thereafter.

John understands Amy's desire to increase the potential of her contribution to the business but thinks she could make a greater contribution by supporting the expansion of his activities. He knows that business has been lost to competitors in the past because both he and Amy have been out at work. 30

If Amy were to agree to run the shop he thinks the business would be more profitable and has provided the figures shown in Table 3 to support his view.

Table 3 – Estimated Effect of Amy's Management of the Shop

Annual savings	£
Part-time staff wages	24,000
Other staff costs	4,000
Potential gains	
Increase in John's business	10 000
Increase in shop turnover	7,000
Total	45,000
Costs	
Amy's salary	20,000
Loss of Amy's contribution to profit	9,000
Total	29,000

John argues that the shop is not well managed by the part-timers and he is frequently having to replace them. He will be more confident that he will be made aware of business opportunities if Amy is in the shop. John also expects that shop sales will increase with better management. Amy is very reluctant to consider this idea but agrees that her own business expansion may be of greater risk than she has estimated and she knows that the cost of expanding John's side of the business can be covered from their existing savings. 35

Required:

Write a report to HGS advising them on their best course of action taking into account all the information given. The title of your report should be:

What is the best decision HGS can make?

Complete both the 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 both from the case, from business theory and from work you have done in preparation;
- (iii) present and analyse the evidence logically and 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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