

Monday 20 May 2013 – Afternoon

AS GCE APPLIED BUSINESS

F242/01/CS Understanding the Business Environment

CASE STUDY

Duration: 1 hour 30 minutes



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Andrews' Farm

Background

Andrews' Farm is a small-scale dairy farm which has been owned and run by the Andrews family for three generations. Located in Herefordshire, the farm occupies over 60 hectares of land. With a herd of 35 cows producing an average of 25 litres of milk per cow per day, *Andrews' Farm* has been struggling to survive since 2005 – a common plight for many small farmers in the dairy industry. The big four supermarkets have established tight control over the milk prices which they pay to dairy farmers and this has forced an increasing number of farmers out of the industry.

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In the summer of 2008, Daisy and Mick Andrews, both in their late sixties, decided to approach Toby, their only son, for help. Toby, who holds a PhD in Mycology, had been working as a researcher at the University of Liverpool since 2005. Toby felt duty-bound to help his parents as it was not an acceptable option to lose the family business. His wife, Michelle, who had been made redundant in early 2008, fully supported the idea of starting a new life on the farm with their two young children. The question was, which strategic direction should the farm take?

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The options

Together the family had considered various possibilities by carrying out a PEST analysis on the business. They finally narrowed the choices down to two options.

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Option 1 – Organic milk production

This is a low risk and relatively cheap option which requires mainly a change in the way in which the farm operates. The first stage involves registering with an organic control body which provides a detailed set of standards for organic farmers to follow. Once registered, conversion from conventional to organic production can begin. It takes a minimum of two years to convert the farm land to organic status.

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From the start, all feedstuffs used on the farm must be produced and certified to organic standards. The existing stalls used to house the cows are of an adequate size, and therefore, no investment in improving the infrastructure would be necessary. The existing livestock would be retained as the milk produced from these cows could be sold as organic following the required conversion period.

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The long-term growth in the sales of organic products looks set to continue, despite a slowdown due mainly to the recent recession (see **Appendix 1**).

Option 2 – Truffière

Truffles are a rare variety of fungus used by top restaurants, traditionally in Europe, to enhance the flavour of their dishes. Due to the truffle's rarity in the wild, it is one of the most expensive foods on earth. Truffles grow on the roots of infected hazel and oak trees.

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Cultivating truffles is a rare business venture in the UK in comparison to France and Italy. It is considered a high risk investment as it takes between four to seven years for the truffles to be ready to harvest. However, Toby believed that years of working as a mycologist had equipped him with the necessary skills and knowledge to give the venture a high chance of success. Moreover, with a market value of at least £2500 a kilogram for fresh truffles, Toby felt that it was a chance for diversification which the farm could not afford to miss.

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Another argument in favour of the venture is the fact that the farm sits on just over 60 hectares of land, ideal for planting a large number of hazel and oak trees on which the truffles grow. The overwhelming advantage of this option is that once planted, the trees require minimal maintenance. The by-product, hazelnuts, could be another source of revenue.

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Toby came across an opportunity to become a franchisee of an already well-established truffière. Although the terms and conditions set out by the franchisor seemed excellent, Toby decided that operating independently would be better. He had already identified a corner on the east side of the farm as having the right soil conditions for the truffles to grow. The soil there also happened to be free-draining, which is important as the top 300mm of soil should be loose enough to enable the truffles to be dug out for monitoring purposes during development. Another advantage was that the site had not been cultivated for the last decade or so and, thus, was free from herbicide or pesticide residues. 45

Fifty hazel and 50 oak tree saplings would be purchased. Toby would inoculate these with the fungus. They would be planted in groves in the right density to enable the root zones of the trees to overlap. Additional investment in the infrastructure for the truffière would include an irrigation system which would have to be put in place in order to ensure that the ground did not dry out for too long, otherwise the fungus would develop poorly. The saplings used would have to be protected from wind. Fencing would be necessary to keep out rabbits and other wildlife to which the saplings are vulnerable. A buffer zone would also have to be created to prevent potential fungal contamination from other wild species in the area. 50 55

The decision

Following a SWOT analysis and much debate, it was decided that both options should be implemented. A change of ownership from a partnership to a private limited company was felt to be necessary with Mick, Daisy, Toby and Michelle acting as directors. *Andrews' Farm Ltd* was formed in the autumn of 2008. 60

Initial success

The first truffle harvest took place in the autumn of 2012 and the results were encouraging. The young trees produced an average yield of 50g of truffles per tree. The quality of the truffles was above average and Toby was able to sell them at £3000 per kilogram.

The Andrews family were also glad that they had converted to organic milk production as national sales of organic milk have increased year on year (see **Appendix 2**). 65

Modern technology

The Andrews family feel that it is now time to improve the productivity of the truffière with additional modern technology. This will enable improved irrigation which is crucial to the growth of the truffles. Computer software is now available which will allow Toby to forecast the weather more accurately and to analyse the health of the land in order to see how the yield can be further improved. 70

Appendix 1

Organic food becomes latest casualty of the credit crunch – 2008

Dairy farmers are turning their backs on Britain's organic milk market as economic pessimism dents consumers' previously buoyant demand for organic produce. The organic goods market at large is being 'credit crunched', particularly among new products such as organic ready meals and home-delivery vegetable boxes.

Figures show that there has been a dramatic reversal in the numbers of dairy farmers converting to organic farming from conventional methods.

Rises of up to 80 per cent in the price of organic feed for dairy herds mean that hundreds of organic milk producers are now running at a loss. So far this year, farms which were undergoing conversion to organic, and were capable of producing five million litres of milk, have abandoned the process and returned to fertiliser-intensive, non-organic farming.

The cost of feed – much of it sourced from as far away as China – has increased by between 50 and 80 per cent. The 36p per litre which an organic farmer receives for milk no longer meets outgoing expenses; while the 28p per litre received by conventional farmers, which represents a substantial increase from the 16p they were receiving 12 months ago, makes non-organic dairy production more attractive.

Organic farmers say they need an increase of at least 4p per litre in order to return to profitability. However, retailers warn that they have little room for manoeuvre in Britain's ultra-competitive supermarket sector.

Some organic farmers have sought assistance from the Government in order to support the industry.

Appendix 2

The Organic Sector – 2010

The three biggest categories of organic food in terms of retail value – dairy, fruit and vegetables, and fresh meat – saw supermarket sales over the last 12 months fall by 6.5%, 14.8% and 22.7% respectively. But overall dairy remains the most popular organic food category, accounting for 33% of all sales.

Unlike other organic products, sales of organic milk grew by 1%, following the launch of a new, 'healthy 1% fat' milk, making 2009 the best year on record for organic milk sales.

The recession has forced the organic sector to confront its image as 'expensive and elitist', and many questions have been asked about whether its food really is tastier and healthier than non-organic equivalents.

Last year a Food Standards Agency study reported that there were "no important differences in the nutrition content, or any additional health benefits, of organic food when compared with conventionally produced food."

Despite the recent slump in sales, the report shows that sales of organic food are still three times higher than in 1999 and more than 50% higher than in 2005. With growing recognition of the need for environmentally sustainable production systems, the organic market is expected to weather the recession and return to growth in the near future.

The report continued, "The market has matured somewhat and we do not expect the rapid growth of the first decade of the 21st century, but we believe there is plenty of scope for growth in organic foods, and more specifically for good-quality food of superior flavour, freshness and known provenance."

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