

ADVANCED SUBSIDIARY GCE
APPLIED BUSINESS
Unit 3: Understanding the Business Environment

F242/CS

CASE STUDY

Monday 18 May 2009
Morning

Duration: 1 hour 30 minutes



INFORMATION FOR CANDIDATES

- This is a clean copy of the Case Study which you should already have seen.
- You should refer to it when answering the examination questions which are printed in a separate booklet.
- You may **not** take your previous copy of the case study into the examination.
- You may **not** take notes into the examination.
- This document consists of **8** pages. Any blank pages are indicated.

Layton Construction plc

History

Layton Construction plc is a medium sized company with headquarters in Southampton. Its predecessor, Layton Ltd, was established in 1958 as a house building company in Hampshire. The original private company was founded by Jim Layton and his wife, Brenda. When their three children reached maturity they joined the business in various capacities:

– elder daughter, Barbara, is a qualified surveyor and took over responsibility for surveying and planning. 5

– son Gary developed many of the skills needed in the building trades and, when Jim retired in 1985, he assumed responsibility for production.

– younger daughter, Sarah, became a qualified accountant and when she joined the business she took over responsibilities for accounting and finance. 10

The private company grew rapidly in the 1970s and 1980s with the boom in owner occupied houses. In its early years the company concentrated on the construction of three bedroom semi-detached and smaller starter houses for young couples. It increased its geographical spread from Hampshire to much of the south east of England. Layton Ltd prospered with the rise in living standards during this period and the growing desire for owner-occupied, rather than rented, houses. 15

Changes

By the 1980s the younger generation of the Layton family wanted to diversify the range of building projects that the company undertook. Barbara pointed to the growth in demand for one or two bedroom flats which she attributed to changes in the social environment. Gary was interested in the building of factory units. He said at the time “I know that so far the Thatcher Government has been associated with factory closures, but I believe that we are in a period of renewal. At the same time as we have some factory closures, we also have the construction of small factory units for modern industry.” Sarah, on the other hand, was keen for the company to gain a share in the growing property development market. She argued that town and city centres were increasingly affected by traffic congestion and that people liked to shop in the new out of town shopping centres that were springing up all over the country. Gary pointed out that “we are not in the same league as the developers of Manchester’s Arndale Centre”. Sarah agreed that Layton was not in this league but nevertheless felt that there was scope for the company to construct smaller shopping malls in smaller towns throughout the country. 20

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Jim Layton, though retired from full-time involvement with the company, was still a member of the Board of Directors of Layton Ltd in the late 1980s. He remained the Chairman, Sarah was Finance Director, Gary was Operations Director and Barbara was the Director responsible for planning. There were three other non-executive Directors – Brenda (Jim’s wife) and two friends of the family. Jim and his three children each had 20% of the shares with the remaining shares owned by the other non-executive Directors. 35

Jim was unhappy with these ideas for expansion and diversification and expressed his views at a Directors’ meeting in 1988. “These ideas are very risky and, in any case, where are we going to get the finance from?” At this point Sarah suggested that the Board consider the idea of converting to a public limited company by the public issue of shares. Jim was very angry at this suggestion and said, “This has always been a family business and I do not want outsiders owning shares and perhaps even taking over the business.” Despite Jim’s opposition, his three children united together with two of the non-executive members to force through a motion to convert the company into a public limited company. 40

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Expansion

Layton Construction plc was established as a public limited company in 1989. Jim and Brenda decided to sell their shares and retire to Spain. The three younger Laytons remained active in the business as Executive Directors and together they held 40% of the shares in the new company. The remaining shares were sold to a mixture of private and institutional shareholders. The largest shareholding, other than family members, was owned by a private equity company which held 11% of the shares in the company. 50

Initially *Layton Construction plc* experienced difficulties resulting from the macroeconomic environment in the early 1990s. It then went from strength to strength in the late 1990s and the first decade of the 21st century. (See economic data shown in Appendices 1, 2, and 3.) Although it continued to build semi-detached houses, a growing percentage of its sales revenue came from the development of small shopping malls, blocks of retirement and other owner-occupied flats and small factory units on industrial estates. The workforce expanded and *Layton Construction plc* could be found throughout the UK, although the south east remained the area of greatest development. 55 60

Eight years ago *Layton Construction* hoped to gain a large share of development along the M11 corridor and the Thames Gateway but time and again it was outbid in its search for land on which to build. It seemed that it was unable to prosper from the building boom promised by the government. At the same time the planning laws restricted development to areas outside the Green Belt. The building of new out of town centre shopping malls was increasingly opposed by various interest groups. "If we cannot get land, we cannot build", was frequently said by Barbara. This became a source of great frustration for the Directors. Gary's answer was to slightly refocus the business and adopt a more aggressive policy in relation to what became known as 'garden grab'. At a board meeting in 2007 he said, "Barbara, your planning team ought to be using modern technology to identify properties with large gardens. Then we make them an offer they can't refuse." James Floud, one of the non-executive Directors, did not like the tone of Gary's statement as he felt that this tactic was questionable in terms of ethics. 65 70

The first garden plot development

In 2007 *Layton Construction plc* managed to obtain one 'garden grab' plot. It purchased part of the gardens of five large houses that had been built in the early 20th century. The combined purchase price of the garden plots was £2.5m and the plan was to build 15 houses on the land. *Layton Construction plc* did experience opposition from local interest groups but eventually managed to gain planning permission to build on the land. Sarah's costings showed that at the price at which the company planned to sell the newly built properties, the company would make a considerable profit. However, before starting construction there was a downturn in the economy prompted by a further rise in interest rates. 75 80

Appendix 1 Average property prices (in £'s)

1982	23 600	
1983	25 500	85
1984	29 100	
1985	31 100	
1986	36 300	
1987	40 100	
1988	49 400	90
1989	54 800	
1990	59 800	
1991	62 500	
1992	61 400	
1993	62 300	95
1994	64 800	
1995	65 600	
1996	70 600	
1997	76 100	
1998	81 800	100
1999	92 500	
2000	101 600	
2001	112 800	
2002	128 300	
2003	140 700	105
2004	161 700	
2005	170 000	
2006	186 900	
2007	194 900	

Source Office of the Deputy Prime Minister, Halifax House Price Index 110

Appendix 2 GDP at constant prices (£ billion)

1970	418	
1980	506	
1990	659	
1995	719	115
2000	829	
2001	847	
2002	863	

Source Defra.gov.uk/environment/statistics/supp/spfos.htm

Appendix 3 UK Bank Base Rate Forecast (%)

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Time Period	Rate (%)
2006 Q1	4.50
2006 Q2	4.50
2006 Q3	4.75
2006 Q4	5.00
2007 Q1	5.25
2007 Q2	5.50
2007 Q3	5.75
2007 Q4	5.50
2008 Q1	5.25
2008 Q2	5.25
2008 Q3	5.25
2008 Q4	5.25

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Source RBS Interest and Exchange Rate Forecast 1/10/07

Appendix 4 Extract of letter sent by *Layton Construction plc* to owners of five houses whose gardens it proposed to purchase

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“We are an expanding and innovative property development company and are actively seeking new opportunities within the area.

In the course of our initial research, we have identified your land as one potential site. Should the potential be realised and appropriate planning permission obtained, we are usually able to offer prices greatly in excess of the valuation of the property. Additionally, we will cover all your costs involved in selling the land.

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Should you be interested in exploring the extent of the potential of your land we would welcome the opportunity of meeting with you to discuss the matter in more detail...”

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