

ADVANCED SUBSIDIARY GCE
APPLIED BUSINESS
Unit 7: Financial Providers and Products

F246/SM

STIMULUS MATERIAL
SERIES 3

It is intended that this stimulus material is used for the January 2009 and June 2009 examination sessions.

OCR Supplied Materials:
None

Other Materials Required:

- Calculator

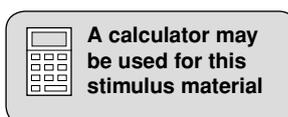


INSTRUCTIONS TO TEACHERS

- This stimulus material provides a vocational context for the internally assessed unit – Unit F246 – Financial Providers and Products.
- Each year **one** scenario will be released on OCR's web-site which will provide an authentic vocational context for candidates' subsequent investigations.
- Although it is intended that this stimulus material is used for the January 2009 and June 2009 examination sessions, there is no shelf life on this OCR generated stimulus material.
- If you wish to generate your own stimulus material for this portfolio unit, please ensure it is fit for purpose and adheres closely to the guidelines as laid down in the unit specification.
- There are no separate marking criteria with this stimulus material.
- Once the candidate has produced their financial package, they must then consider its effectiveness, given a change in the future circumstances of their customer. At this point you must provide additional guidance on what these future changes could be, referring to the unit specification as a source of further information.

INFORMATION FOR CANDIDATES

- This stimulus material has been created to provide you with a vocational context for the internally assessed unit – Unit F246 – Financial Providers and Products.
- If you have any questions regarding the stimulus material, you must consult both your teacher and the unit specification.
- Once your financial package has been generated you must then consider its effectiveness, given a change in future circumstances to your customer. At this point, you will be provided with additional guidance from you teacher to allow you to carry out this evaluative task.
- This document consists of **8** pages. Any blank pages are indicated.



‘DUSTLESS’ – A Job Well Done

As his time at Sixth Form College was nearing an end, Colin was still unsure in what direction he wanted his career to take. In order to help him make up his mind, he took part in a two week work experience programme in early July which was based with a leading financial provider. During this placement, Colin discovered that this is the type of career in which he would be interested when leaving university. As part of the placement, students are required to complete a project – a financial package to meet a customer’s specific needs. Colin had been considering how to start up his own business. He asked his immediate manager if he could complete this project at the end of the summer. Colin wanted to focus it on the development of his own part-time business and imminent departure from the family home. His manager thought this was an excellent idea and is looking forward to seeing the finished project.

Mid-August is now looming and Colin is eagerly awaiting the results of his ‘A’ levels. Will he have achieved sufficient points enabling him to go to his first choice university and become financially independent?

Throughout his time at college, Colin’s parents had kept him usefully employed within the family business. Five years ago Julie, Colin’s mother, had started up a domestic cleaning business. The business grew rapidly, quickly expanding into industrial cleaning. Colin’s father, Alan, now runs the commercial cleaning side of the business, leaving Julie to organise the domestic cleaning contracts. Throughout the last two years, Colin has been undertaking both domestic and commercial cleaning contracts for his parents.

After working closely with his parents, he has come to realise that they have been able to establish an excellent reputation based on reliability and a ‘job well done’. It is this reputation which continually brings in new business. His parents have not undertaken any advertising for the last four years and still the business continues to grow.

During the summer periods, Colin increased his working hours to an average of 40 hours per week, enabling him to save a total £3500 over the last two years. This is presently in his current account. He is unsure if this is the most effective place to invest his money. Colin has also managed to pass his driving test during the summer holidays, but as yet has not purchased a car.

Colin’s Idea

Colin is concerned that he does not want to become over-burdened with debt when he leaves home to go to university. He has come up with the following money making scheme. He knows that the majority of students often do not like cleaning. He is also aware that landlords can withhold deposits if houses are left in an untidy state. He feels that there is a niche cleaning market offering a regular domestic cleaning service to students and other householders. He will also advertise a special deal for a ‘whole house clean’ for students who are about to vacate their property. Additionally he will market this service to people who are about to move house.

Colin is also considering targeting new housing developments in order to establish a commercial base. He thinks that if the business takes off he can contract people on a self-employed basis in order to meet fluctuations in demand.

Colin has considered that if he was able to use his parents’ business name – ‘Dustless’ – he would have a head start in the market. He would have the benefit of using an already established logo and reputation which might help attract his initial customers. He would also be able to use references from customers who currently use ‘Dustless’.

Colin knows that the next step is to calculate his initial start-up costs. These will consist of a car or a van, vacuum cleaners, buckets, cloths, cleaning materials and, of course, some form of advertising. He thinks that a budget of £6 000 should cover this initial expenditure.

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He is also aware that he has insufficient knowledge when it comes to the financial running of the business. He knows that he will need to open a business bank account but is unsure where and how he can secure the best deals. He will also need some kind of public liability insurance. The car (or van) will also need to be taxed and insured. He does know that he will need to make sure that the car (or van) is covered for business use.

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The final hurdle is to convince Mum and Dad that he has a solid business concept.

Julie and Alan have listened to Colin's idea and have not dismissed it out of hand. However, they both feel that Colin must ensure he delivers the same high standards which are currently offered by 'Dustless'.

In order to help Colin, Julie has gone back over the initial sales figures of 'Dustless' and feels that the following estimates are realistic for Colin's first year. She is not sure how many 'whole house cleans' Colin would secure and has, therefore, based her estimations on regular domestic cleans. Julie feels that there is a need for domestic cleaners all over the country and is confident that her figures will prove accurate. Julie currently charges her own customers £12 per hour for domestic cleaning, with commercial cleaning earning £15 per hour. She thinks that Colin will initially only be able to charge £10 per hour – even if they allow him to use their established name. They will have to set this up as an initial three month offer, as she thinks if her current customers hear that Colin is offering the same service for less, then they might start complaining or even leave.

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Estimated Income

| Months | Calculations | Income |
|-----------------------------|----------------------------------------------------------------------------------------------------------------------------------|--------------|
| One | 5 domestic customers at 2 hours each – £10 per hour × 4 weeks | £400 |
| Two | 5 domestic customers at 2 hours each – £10 per hour × 4 weeks | £400 |
| Three | 7 domestic customers at 2 hours each – £10 per hour × 4 weeks | £560 |
| Four | 7 domestic customers at 2 hours each – £12 per hour × 4 weeks 1 commercial clean at 3 hours per week – £15 per hour × 4 weeks | £672 £180 |
| Five | 7 domestic customers at 2 hours each – £12 per hours × 4 weeks 1 commercial clean at 3 hours per week – £15 × 4 weeks | £672 £180 |
| Six | 9 domestic customers at 2 hours each – £12 per hour × 4 weeks 2 commercial cleans at 3 hours each – £15 per hour × 4 weeks | £864 £360 |
| Total income for six months | | £4 288 |

Julie estimates that for the following six months Colin would probably have ten domestic cleans of two hours each a week and three commercial cleaning contracts averaging three hours each per week. This would give him an income of £1 500 per month. His total sales for his first year would then amount to £13 288. 65

Julie thinks her estimates after the first four months could prove quite low, but feels it is better Colin underestimates his potential earnings at this stage. 70

Julie has also calculated that Colin will incur running costs of approximately £6 500 in his first year of trading. These would include motor expenses, cleaning materials, sub-contract labour from month four, insurances, advertising and mobile telephone.

Prior to giving their final consent Julie and Alan want Colin to undertake the following research. Based on his analysis and subsequent recommendations they will decide if they will allow him to open and run a new branch of 'Dustless'. 75

The Next Steps

In terms of his personal circumstances they want Colin to:

- calculate how much money he needs to live – this should include rent, food, leisure activities, etc;
- calculate if the new branch of 'Dustless' will give him sufficient income to live at university; 80
- research and recommend the best personal banking arrangements for himself;
- research and consider savings schemes and personal insurance.

In terms of the business they want Colin to:

- research and recommend the best banking arrangements for his business; 85
- research and recommend the best insurance deals for his business;
- research and justify how he will finance the start-up costs of the business.



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