

ADVANCED SUBSIDIARY GCE

APPLIED BUSINESS

Unit 3: Understanding the Business Environment

F242/CS

CASE STUDY

Thursday 8 January 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 **4** pages. Any blank pages are indicated.

Anita's Tiny Tots

Introduction

For many years Anita Patel ran a successful market stall known as *Anita's Tiny Tots* in the East Anglian town of Norford. The outdoor market in Norford operated only on a Monday and, although her selling was confined to this one day, it provided her with a good starting point in business. 5

Anita specialised in selling children's clothing, including dresses, tee-shirts, jumpers, socks and scarves. She sold at the lower priced end of the market and her products were especially appealing to parents who could not afford, or were not prepared to pay, the high prices associated with designer clothes. Anita's pricing is based on a 100% mark up, which means that if she bought stock for £5 she would sell it for £10. 10

Although Anita could source her stocks of clothing from a local manufacturer, she had chosen to buy from an agent who imports children's clothing from Poland, Greece and China. The cost to Anita of her stock purchases does, therefore, vary with the exchange rate (**see Appendix 1**). Anita, however, is becoming more concerned about buying clothes made in China because of what she has heard about China's low wages and human rights record. 15

Anita stores her goods in a lock-up garage and moves her supplies to the market each Monday in a Ford Transit van that her brother, Amit, normally uses for his small 'Man and a Van' removal business. The arrangement with Amit is informal but he can normally be relied upon to take the stock to market in the early morning and pick up unsold stock at the end of the day. Anita gives her brother £20 each market day for the use of his van and services. Anita also employs her friend, Sandra Bates, to assist her for part of the day and for this Sandra is paid £50. Like the payment to Amit, this is a 'cash in hand' payment. The arrangements with both Amit and Sandra could be classed as black or hidden economy activities away from the scrutiny of the tax and other authorities. 20

Expansion

Having established a successful small business, Anita is looking at opportunities for expansion. Two possibilities have presented themselves. First, Anita could increase the number of outdoor markets at which she sells. Alternatively, she could take out a lease on a shop in Norford, thereby selling children's clothing throughout the week. 25

Option One

In relation to the first option Anita is considering setting up market stalls at the outdoor markets in the neighbouring towns of Southborough and Walvin St Mary. The market at Southborough takes place on a Thursday, while that at Walvin St Mary occurs every Saturday. With a market stall in three towns, she could sell clothes on three days per week and, she hoped, treble her sales revenue. 35

There would be some costs involved in this expansion. The rent for setting up a stall is £40 per day in each of the towns. In addition, it is clear that Amit could not commit himself three times per week to move Anita's stock. This would mean that Anita would have to purchase a van to transport her stock. The total annual cost of the van would work out at £5000. In addition, the 'cash in hand' financial arrangement with Sandra had always troubled Anita and she knew that it would have to be placed on a more formal footing. Sandra could continue to be employed by Anita but tax and national insurance would have to be paid. The cost to Anita of employing Sandra for three days on a formal basis would be £180 per week (£60 per day, including national insurance). 40

Option Two

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The alternative option would be to operate from a shop in Norford. This has the attraction of six days a week trading (or even seven days, if she chooses). Moreover, although Anita enjoys outdoor markets she has become increasingly tired of the early starts on cold winter mornings. This option also had the great advantage of the absence of existing specialist retailers of budget priced children's clothes in Norford, although there are two upmarket retailers of designer clothes for children. One shop unit is available in the centre of Norford. This is available on a five year lease at £20 000 per year, with payment in two equal instalments. In addition, Anita would have to refurbish the shop and she estimates the cost of furnishing and fittings at £20 000. The total set up costs, including the first half year rent, refurbishing and purchase of stock would be around £35 000. There would also be ongoing overheads in terms of electricity, water supply, etc. Finally, Anita would have to employ the equivalent of one full-time person, even if it was a series of people on a part-time basis.

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Anita hoped that by moving from a market stall to a shop she would place her business on a more formal footing. At the same time she would secure minor savings. For instance, she would no longer have to rent a lock-up garage or pay Amit to transport her goods and she would not have to pay market fees. She saw this shop as the first in a chain of similar shops throughout the region.

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To finance the expansion, Anita is willing to use £15 000 of her own savings but to fund the shortfall she would need external funds. Anita applied for a £20 000 loan from her bank but was given only qualified encouragement. The bank manager, Michael O'Connell, asked for a more detailed business plan, including a cash-flow forecast. Although he knew of Anita's success in business and admired her enthusiasm, he had severe reservations about the quality of her financial records. He told her that in growing the business beyond its present position, it was essential to the financial aspects of her business that she should adopt a more formal approach to record keeping. He also asked her to consider trends in the external environment, in particular the rise of Internet shopping, the ageing population in the UK in general and Norford in particular and the possibility of a downturn in the economy (see Appendix 2).

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The Future

Anita was somewhat disappointed by the news from Mr O'Connell but was determined to grow her business. The next day Sandra suggested that they form a partnership. This came as a complete surprise to Anita but Sandra pointed out that now that her children had gone off to college and since she had inherited money from her late mother, she could not only work full-time but also had funds to invest in a business. "What do you think Anita? We're good friends, we work well together and, if we formed a partnership, I could also relieve you of some of the work, as well as supplying some investment funds. You wouldn't need a bank loan if we formed a partnership," said Sandra. Anita accepted the benefits of working together but had some reservations about going into a partnership with anyone.

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Appendix 1 Exchange rate. One pound sterling equals:

	Euro	Yuan	Zloty
2003	1.42	14.78	6.66
2004	1.42	15.86	5.75
2005	1.45	13.87	5.58
2006	1.48	15.29	5.68
2007	1.36	14.49	4.90
2008	1.20 (forecast)	12.00	4.13

Appendix 2**Selected Statistics**

	The UK	Norford
Population in 2006	60.2 m	79 623
Population growth 2005–6	0.6%	0.7%
Birth rate 2005	12 per 1000 of population	10 per 100 of population
No. of births 2005	722 000	796
Children (0–15) in 2005	19.3% of population	17.2% of population
GDP growth Annual average 2000–6	3%	The local economy is growing by 5% per year

Appendix 3**Newspaper Article – Norford Weekly News**

Norford District Council has just announced its latest five year plan which will provide an outline of the development needs of the district during that period. One major issue which is not fully considered in this plan is the implications for housing and education following the recent influx of migrant workers from Poland and other parts of Eastern Europe into Norford and the surrounding villages.

Most of these migrant workers have found relatively low paid work on the farms in and around Norford, as well as driving buses for Eastern Transport, but many are still finding it difficult for their families – both those living in the Norford area and those back in their home countries.



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Appendix 1 www.bankofcanada.ca/en/rates/exchform.html

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