

Advanced Subsidiary GCE

**F242/CASE STUDY**

Applied Business

Unit F242: Understanding the  
Business Environment

Additional materials:

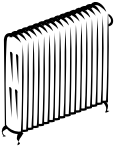
### INSTRUCTIONS TO TEACHERS

- This case study may be opened and given to candidates on receipt.

### INFORMATION FOR CANDIDATES

- You **must** make yourself familiar with the case study before you take the question paper.
- You **must not** take notes into the examination.
- A clean copy of the case study will be given to you with the question paper.
- The question paper may include additional information not originally included in this pre-release material.

This document consists of **6** printed pages and **2** blank pages.



# Hot Property !!

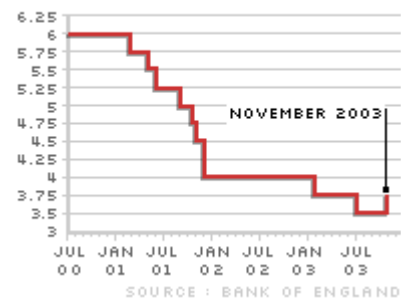


Simon Gladstone has worked in the heating and plumbing industry for over **ten** years and has gained a wealth of knowledge and expertise about all aspects of the industry. He has, for many years, struggled to obtain specific parts for his heating business due to the lack of suitable suppliers to the industry. Many of the parts he has required are supplied by overseas manufacturers and have long lead times in periods of high demand.

Simon decided some months ago that he had an idea of a gap in the UK market for a specialist heating valve which he had used to great effect many times, but had to import from abroad. Simon decided that he would investigate the possibility of setting up his own business in manufacturing these components in the UK. Simon looked into the benefits and drawbacks of setting up as a private limited company as opposed to a partnership when setting up his new business. Simon realises that he may not be able to compete on production costs but, if he were to concentrate on supplying in the UK, he feels that he may be able to compete with the foreign firms as they have to cover larger transport costs. He is also of the feeling that customers will be willing to pay a small amount extra for a more efficient and reliable supply of the product. Simon has also identified a Unique Selling Point for his product in that it will make household heating far more efficient, thus ensuring that fewer valuable environmental resources are used up.

Simon has been working on this idea for some months; he has already produced some preliminary financial analysis in the form of a projected cash-flow forecast (**Figure 1**) and break-even graph (**Figure 2**) for his proposed new business, SG Heating Ltd. With this financial information, coupled with some strong market research results, Simon has secured a bank loan of £10 000 which he is very pleased with and confident of paying back, particularly with the low interest rates the UK is currently experiencing. He has also identified some of the equipment he will need and their costs.

Bank of England's base rate



Much of Simon's optimism is based upon a booming housing market in the UK (**Figure 3**), both in the demand for new houses and in the regeneration and development of older properties. Simon believes that the effect of the market growth in that sector will ensure that he is able to gain sales for his product almost immediately.

Simon is confident that the time is right to strike. The market conditions appear to be favourable as his main competitor, Italia Heating Ltd, are experiencing production problems in Italy as industrial action by employees has occurred. Simon has identified a unit factory on the new Bagshaw Village development in Lancashire at a monthly rental cost of £2 000, a small workforce has been assembled and trained and suppliers are all in place. Simon feels it's now or never, important business decisions have to be made.

Cash Flow Forecast	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<b>Income</b>												
<b>Cash Sales</b>	9 600	14 400	14 400	14 400	14 400	14 400	14 400	14 400	14 400	14 400	14 400	14 400
<b>Credit Sales</b>			7 200	7 200	7 200	7 200	7 200	7 200	7 200	7 200	7 200	7 200
<b>Capital - Loan</b>	10 000											
<b>Total Income</b>	19 600	14 400	21 600	21 600	21 600	21 600	21 600	21 600	21 600	21 600	21 600	21 600
<b>Expenditure</b>												
<b>Direct Materials</b>	2 500	3 500	4 000	4 000	4 000	4 000	4 000	4 000	4 000	4 000	4 000	4 000
<b>Direct Labour</b>	2 000	2 800	3 200	3 200	3 200	3 200	3 200	3 200	3 200	3 200	3 200	3 200
<b>Fixtures &amp; Fittings</b>	6 000						6 000					
<b>Rent</b>	2 000	2 000	2 000	2 000	2 000	2 000	2 000	2 000	2 000	2 000	2 000	2 000
<b>Insurance</b>	50	50	50	50	50	50	50	50	50	50	50	50
<b>Electricity</b>	25	25	25	25	25	25	25	25	25	25	25	25
<b>Stationery</b>	10	10	10	10	10	10	10	10	10	10	10	10
<b>Postages</b>	15	15	15	15	15	15	15	15	15	15	15	15
<b>Advertising</b>	75	75	75	75	75	75	75	75	75	75	75	75
<b>Bank Loan Repayments</b>	500	500	500	500	500	500	500	500	500	500	500	500
<b>Total Expenditure</b>	13 175	8 975	9 875	9 875	9 875	9 875	15 875	9 875	9 875	9 875	9 875	9 875
<b>Net Cash Flow</b>	6 425	5 425	11 725	11 725	11 725	11 725	5 725	11 725	11 725	11 725	11 725	11 725
<b>Opening Balance</b>	0	6 425	11 850	23 575	35 300	47 025	58 750	64 475	76 200	87 925	99 650	111 375
<b>Closing Balance</b>	6 425	11 850	23 575	35 300	47 025	58 750	64 475	76 200	87 925	99 650	111 375	123 100

Figure 1: Cash Flow Forecast for SG Heating Ltd

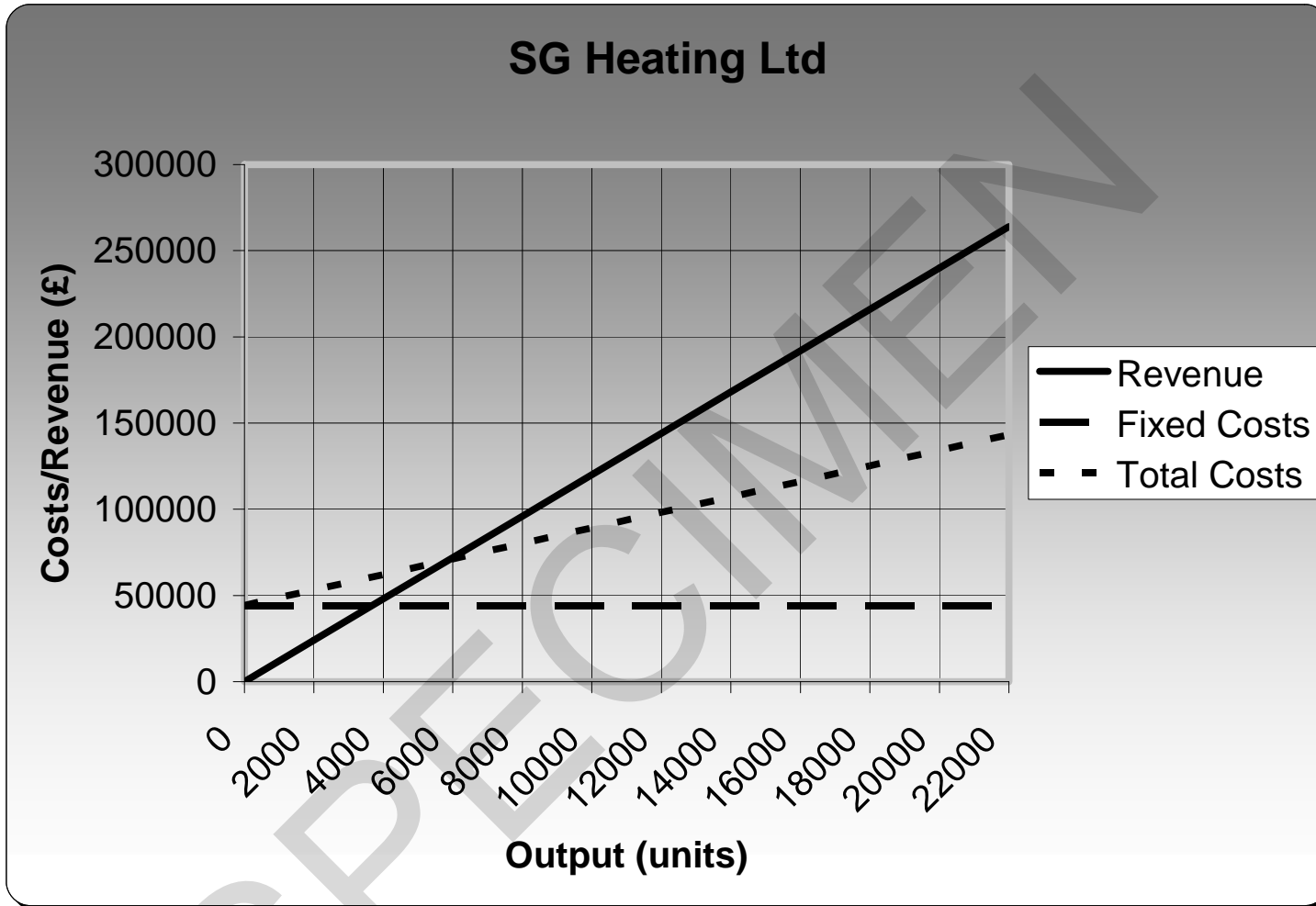


Figure 2: Break-even graph for SG Heating Ltd

## Cautious thumbs-up for UK economy



The UK is still not wholly business-friendly, the OECD says

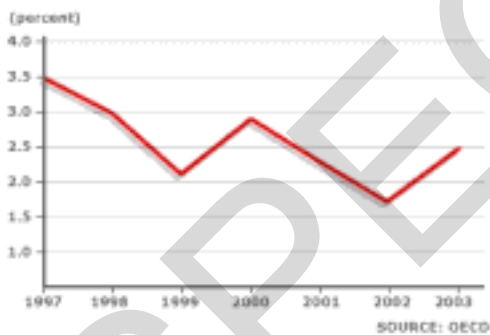
The British economy has slowed over the past 12 months, but remains among the strongest in the developed world, a report has said.

### Bouncing back

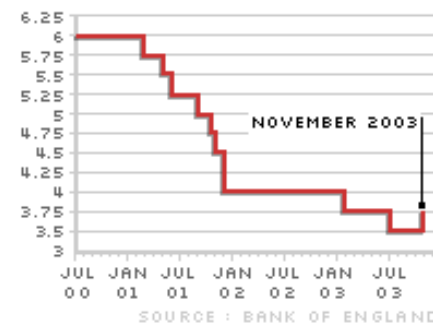
The main headline growth forecasts showed that Britain is among the most resilient developed economies, even taking into account the effects of the 11 September attacks. The forecast that the UK's economic output growth, or GDP, would dip from 2.3% this year to just 1.7% in 2002. While below the UK's long-term growth rate of around 2.25%, the growth figure for 2002 is higher than that other developed economies are thought likely to achieve.

Information adapted from <http://news.bbc.co.uk> Monday 26 November 2001

UK economic growth



Bank of England's base rate



## The Bank of England has raised interest rates to 3.75% – the first rise in almost four years.

The move was widely expected and follows concerns that consumer debt and house prices were rising to dangerously high levels. Raising rates will put a heavier burden on borrowers, with the average mortgage of £60 000 set to rise by about £9 a month. And manufacturers are concerned that increasing the cost of borrowing will stifle their attempts to recover from tough times.

Figure 3: Economic Data

### UK economy pros and cons

#### Pros:

- Solid growth prospects
- Low unemployment
- Low inflation
- Sound government finances
- Better expenditure planning

#### Cons:

- High external risks
- Over-strong pound
- Too many spending targets
- Low productivity
- Regulatory muddle
- Outmoded company law

## Unemployment at 28-year low

The number of people out of work and claiming benefits in the UK is at a 28-year low.

The claimant count dropped by 6 900 to 930 800 - much better than the 2 000 decline forecast by economists and the lowest level since September 1975, the Office for National Statistics (ONS) said. The government's preferred measure for unemployment, counting the number of people out of work over the past three months, fell by 1 000 to 1 493 000 people - resulting in a jobless rate of 5.1%. At the same time, the overall size of the UK workforce continued its steady rise, adding another 63 000 in the quarter to a new record high of 27.93m. Factory workers bear brunt



The main areas of jobs growth were in construction, financial and business services, and in public administration, education and health the ONS said. However, hard-pressed manufacturers had continued to shed tens of thousands of jobs.

Information adapted from <http://news.bbc.co.uk> Wednesday 17 September 2003

## Lending to home-buyers hits record

Mortgage lending for house purchases hit a new record of £11.5bn (\$18.6bn) in August, smashing the previous record set in July, according to figures from the Council of Mortgage Lenders (CML).

The figures suggest that consumers' confidence in the property market remains strong, despite repeated suggestions that the UK's inflated housing market may collapse.

House purchases now account for 48% of all lending - the highest proportion since last December.



Information adapted from <http://www.findaproperty.co.uk> 18 September 2003

**Figure 3: Economic Data (continued)**

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