

Wednesday 18 January 2012 – Morning

A2 GCE APPLIED BUSINESS

F248/CS Strategic Decision-Making

CASE STUDY

Duration: 2 hours



INSTRUCTIONS TO 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.

INSTRUCTION TO EXAMS OFFICER/INVIGILATOR

- Do not send this Case Study for marking; it should be retained in the centre or destroyed.

Fairburn Farm

The background

Fairburn Farm is a traditional fruit farm occupying over 20 hectares of land on the Kent/Sussex border. Brothers, Pete and Simon Fairburn, now in their early forties, inherited the farm from their father in 2004. Having been brought up on the farm they are both 100 per cent committed to the business which their grandfather started on his allotment more than 70 years ago.

Fairburn Farm produces two types of fruit – soft fruit and orchard fruit. Both types of fruit are sold to a fruit marketing company, Fruitline Ltd, a leading supplier of fruit to the UK's supermarket industry. *Fairburn Farm* pays a commission to Fruitline Ltd for the distribution of its fruit. *Fairburn Farm* does not sell fruit direct to the public. 5

Growing practices have remained much the same over the years, but the market for fruit has changed considerably. The dominance of supermarkets, and the increase of imported fruit from around the world, has meant that the farm must make continual improvements in order to survive. Pete and Simon are kept very busy maximising the use of every available piece of land. Despite becoming the owners of *Fairburn Farm* over seven years ago, Pete and Simon have not taken the time to agree a business aim for the farm. 10

Soft fruit production

Strawberries, grown in polytunnels, are *Fairburn Farm's* main soft fruit crop. Smaller quantities of other soft fruits such as raspberries and blueberries are grown in glasshouses. Three farm labourers are employed on permanent contracts to tend the soft fruits throughout the year. Harvesting of soft fruit is very labour intensive because each berry needs to be picked by hand. From May to August, the four months of peak yield, *Fairburn Farm* hires 18 temporary, low paid workers to help out with the soft fruit harvest. The temporary workers, usually a combination of students and migrant labourers, are required to undertake the backbreaking work of picking the crop and sorting out the good fruit from the waste. The berries are then run through a fruit grading machine, packaged and placed into cold storage ready for the daily arrival of one of Fruitline Ltd's refrigerated lorries. 15
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Orchard fruit production

Fairburn Farm grows eight varieties of apple, three varieties of pear, and Morello cherries in its orchard. Five farm labourers are employed on a permanent basis to maintain the trees throughout the year. The trees in the orchard are mature, reaching up to six metres high. Hydraulic access platforms are needed to prune the trees in winter and to harvest the fruit during the growing season. From July to October, *Fairburn Farm* hires an additional nine low paid temporary workers to pick the fruit, sort it manually into grades and discard any waste. Like the berries, the crates of orchard fruit are stacked in the cold store and collected daily by Fruitline Ltd in one of its refrigerated lorries. 25
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The brothers

All of the farm labourers, be they temporary or permanent, are appointed and managed directly by the two brothers. Pete is in charge of the soft fruit production and controls the soft fruit production staff. Simon runs the orchard and oversees the orchard fruit staff. Despite being brothers, the two men have very different personalities. 35

Pete is a planner and an organiser. He is an autocratic manager who keeps tight control. He makes decisions about the soft fruit production without any consultation with his farm labourers. He is not interested in hearing what his staff think, he gives orders to his staff and he expects them to obey.

Having a good head for figures, Pete is concerned about profit levels. He is currently investigating whether critical path analysis could improve operations at *Fairburn Farm*. 40

Simon, on the other hand, is uncomfortable with numbers. He is concerned with relationships and believes that good working relationships are the key to creating a successful business. Simon is, therefore, a democratic manager who works with his team. He involves them in the day-to-day decision-making in the orchard. He delegates authority to his labourers to achieve the required results in the best way they see fit. 45

Simon, with a strong sense of social responsibility, and keen to forge good relationships with the local community, is currently organising a 'bring and buy sale' to be held at *Fairburn Farm* in aid of the local youth club.

The problem

In the seven years Pete and Simon have been running the farm, the returns have been extremely variable. In 2005 and 2010, bumper harvests saw annual profits in excess of £500 000. In 2007, profit was minimal due to poor weather conditions at the beginning of that year. In 2009, a fungal infection among the strawberry plants led to a significant trading loss. Pete and Simon both feel that the business is too dependent on variables outside of their control. They can recall their father talking about similar problems and remember him discussing the idea of growing Christmas trees to provide some stability for the business. However, at the time their father was unable to buy suitable land. 50
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The opportunity

Fairburn Farm currently has £300 000 sitting idle in its bank account. Land belonging to a neighbouring farmer has just been put up for sale at a price of £40 000 per hectare.

Both Pete and Simon want to take the farm forward on a firmer footing. The brothers are, therefore, investigating three strategic options. 60

The options

Option 1 – Christmas trees

Using their father's idea, buy 20 hectares of land and grow Christmas trees. The trees would be grown in pots and supplied with roots intact to meet the demands of the increasingly popular, and premium priced, living Christmas tree market. Christmas trees up to a metre in height would be ready for sale in two years' time, but larger trees would need several years to become established. Although the trees would require little maintenance once planted, new tree plantings would need to take place every year in order to replenish the stock. Additional temporary staff would need to be recruited at peak times. 65

At a cost of £800 000 for the land, and estimated costs of £80 000 for farm equipment and £20 000 for saplings, the capital budget spend on this option would be in the region of £900 000. Pete and Simon would be able to cover the shortfall in funds by obtaining an unsecured business expansion loan of £600 000. 70

Option 2 – Golf range

Buy eight hectares of land and open a 40-bay floodlit golf driving range, complete with clubhouse, equipment hire, toilets and changing rooms. The nearest competitor is over 10 miles away and does not offer floodlit facilities. Simon favours this option as it would provide much needed leisure facilities for the local community. Staff familiar with the game of golf would need 75

to be recruited to work on the driving range. There could even be an additional income stream in a few years' time if the golf range was able to offer private golf lessons.

At a cost of £320 000 for the land, and estimated costs of £300 000 for buildings and equipment (including the cost of obtaining planning permission) and £20 000 for advertising, the capital budget spend on this option would be in the region of £640 000. Pete and Simon would be able to cover the shortfall in funds by obtaining a secured commercial loan of £340 000. 80

Option 3 – Luxury holiday caravans

Buy half a hectare of land and site 10 luxury holiday caravans on the land. The caravans, each with their own private garden, should prove popular with foreign tourists as well as UK holidaymakers. With extensive marketing, these caravans could be let out for holidays and short breaks throughout the year. The caravans would need servicing daily. Pete favours this option. 85

At a cost of £20 000 for the land, and estimated costs of £400 000 to purchase and site the caravans (including the cost of obtaining planning permission) and £40 000 for marketing, the capital budget spend on this option would be in the region of £460 000. Pete and Simon would need to obtain a commercial loan of £160 000. However, they could choose to borrow up to £300 000 and keep some money in reserve. 90

Appendix 1

UK Christmas tree industry

The Christmas tree industry in the UK has boomed in recent years. Ten years ago, 25% of all Christmas trees sold were imported; today only 5% are shipped in. This is a result of the increasing cost of producing trees in countries such as Denmark – which is the leading Christmas tree exporter in Europe – as well as an increasing number of British farmers starting to produce Christmas trees.

The price of Christmas trees in 2011 is likely to be at an all-time high. A regular family Christmas tree will set you back £25–£45 depending on the species, with prices in London being as high as £50 for a bushy and well-shaped tree – a 10–20% increase on 2010.

Living Christmas trees

Buying a living Christmas tree is becoming a popular choice for environmentally-conscious Christmas celebrators. If you have ever felt bad about cutting down a tree only to have it up for a few weeks and then throwing the whole thing away, you may want to consider purchasing a living Christmas tree, which comes with its roots intact. After decorating it for the holidays, you can plant it in your back garden or donate it to a plant-a-tree organisation.

Appendix 2

Golf driving range sector trends

The financial performance of driving ranges is closely linked to the popularity of golf. Increased television coverage has helped broaden awareness of golf. According to government figures, around 1% of the population plays golf for at least 30 minutes once a week, making it the ninth most popular sporting activity, and more and more young people are also becoming involved in the sport.

Due to the complicated nature of the golf swing and its tendency to desert the average golfer, there will be a demand for practice facilities as long as people continue to play golf. Golf driving ranges are inexpensive to use and the golfer need not even own a set of clubs as most ranges offer club hire. The ranges which will succeed in the future are the ones that maximise the potential of their catchment area and provide good, value-for-money services which will appeal to golfers of all levels. There may also be scope to market the range to 'stag and hen' parties and other groups wanting a leisure activity.

Appendix 3

Holidaying at home

Many British people are holidaying at home in 2010 amid fears over tour operator problems, flight upsets and the eurozone's debt crisis, according to a recent report.

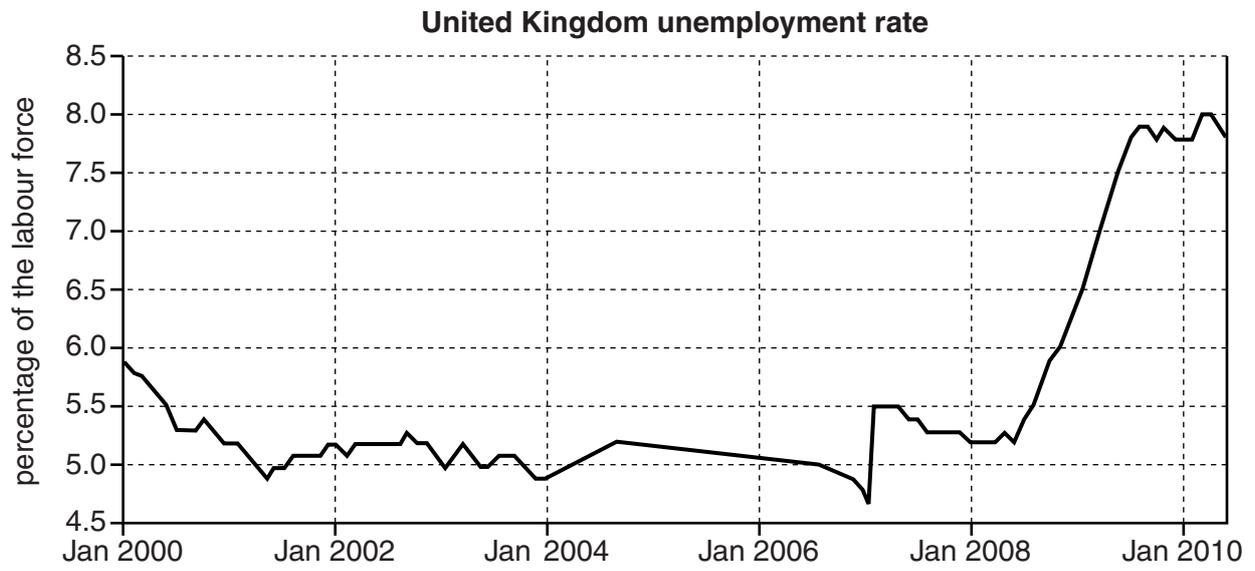
One in four holidaymakers is taking more 'staycations', and a third will be spending their main holiday on home soil.

About 25% of those surveyed are doing so in order to keep a close eye on finances. The average family will spend just over £980 on a summer holiday in the UK, with Scotland, the Lake District, Devon and Snowdonia likely to be the biggest beneficiaries.

For many, the financial instability in Europe (11%) and the risk of a repeat of the ash cloud problems (6%) has deterred them from taking a break abroad. A further one in 15 (7%) are put off by the threat of airline strikes.

Appendix 4

UK unemployment rate 2000–2010



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