

## SAMPLE ASSESSMENT MATERIAL

# Level 3 Cambridge Technical in Business

## 05834/05835/05836/05837/05878

### Unit 3 Business decisions

Sample Assessment Material

## PRE-RELEASE

### Date – Morning/Afternoon

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# Wattam Grove

## The business

*Wattam Grove* is a traditional fruit farm occupying 45 acres of land on the Devon/Cornwall border. The farm is located approximately five miles from the coast. Brothers, Eric and Percy Wattam, now in their early forties, inherited the farm from their father in 2007.

*Wattam Grove* produces soft fruit. Raspberries, grown under glass, are *Wattam Grove's* main crop. Smaller quantities of other soft fruits such as blackcurrants, strawberries and blueberries are grown in polytunnels. Blackberries and gooseberries, which do not need protecting from the elements, are also grown on the farm. All of *Wattam Grove's* produce is sold to a fruit marketing company, Fruitex Ltd, a leading supplier of fruit to the UK's supermarket industry. *Wattam Grove* does not sell fruit directly to the public.

Four farm labourers are employed on permanent contracts to look after the soft fruits throughout the year. From May to October, the six months of peak yield, *Wattam Grove* also hires 22 temporary, low paid workers to help with the soft fruit harvest. The harvesting of soft fruit is very labour intensive because each berry must be picked by hand. 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 Fruitex Ltd's refrigerated lorries.

All of the farm labourers, be they permanent or temporary, are recruited and managed directly by Eric. Eric has an autocratic leadership style and likes to keep tight control of the workforce. He makes day to day decisions about the soft fruit production without consulting the farm labourers.

Percy is a planner and an organiser. He is good with numbers and is in charge of the financial and administrative aspects of running the farm. Percy is all too aware that the farm needs to financially support not only himself and his brother but their families as well. Percy is married to Pat, a part-time school cook. They have one daughter who currently attends the local junior school. Eric is married to Marie, who is currently unemployed. They have twin sons aged 17, both of whom hope to go to university next year.

Eric and Percy have a strong sense of social responsibility and are keen to forge good relationships with the local community. While both brothers agree that making sufficient profit, by necessity, has to be the main aim of the business this should not be to the detriment of their relationship with the local community.

## The problem

In the nine years Eric and Percy have been running the farm, the returns have been extremely variable. In 2008 and 2014 bumper harvests saw annual profits in excess of £300 000. In 2010 profit was minimal due to poor weather conditions at the beginning of that year. In 2011 a mite infestation of the raspberry canes led to a significant trading loss. Eric and Percy both feel that the business is too dependent on variables outside of their control.

Furthermore, the market for fruit has changed considerably over the last decade. Fruit farms have lost a significant amount of market power due to the dominance of supermarkets and the increase in imported fruit from around the world. *Wattam Grove* can no longer control the selling price of the fruit it grows, further threatening the farm's net profit and gross profit margins. Eric and Percy have tried their best to compensate for this lack of market power by minimising costs and increasing output. However, this constant struggle is having a negative impact on their work-life balance and on their families.

Supporting their families solely by the growing of fruit no longer appears to be an option. Despite being naturally risk averse, Eric and Percy agree that the farm must pursue a strategy of diversification if it is to survive.

## The options

Eric and Percy are currently investigating three diversification options for *Wattam Grove*. They fully intend to discuss these options with their respective families before coming to an agreed final decision.

### Option 1 – Jam and preserves

*Wattam Grove* could make and sell its own range of speciality jams and preserves. Pat has some excellent recipes, given to her when she did her catering course, which could be used to set up the initial product range. Where possible, fruit grown on the farm would be used.

*Wattam Grove* would make the jam and preserves in batches of 500 jars. Two of the farm's underutilised barns would be converted into a production unit large enough to house the required cooking, cooling and packaging equipment. Hygiene certificates would need to be obtained. Initially, the farm would recruit one full-time and two part-time catering employees. It is hoped that in the future opening a café on the farm, which would specialise in the sale of cream teas using the farm's own brand of jam and preserves, may be an additional revenue stream.

The capital budget spend of converting the barns is estimated to be in the region of £300 000. This option would use up all of *Wattam Grove's* retained profits. Furthermore, there would be additional revenue expenditure each year to cover the wages of the catering employees.

Capital investment appraisal suggests a payback period of approximately five years, with an ARR of 16% over the first seven years of trading.

## **Option 2 – Camping and caravan site**

*Wattam Grove* could purchase neighbouring farmland and convert its use to a camping and caravan site. Suitable land is currently for sale at a cost of £18 000 per acre. *Wattam Grove* would purchase 10 acres of land, sufficient for 180 pitches. Percy expects the camping and caravan site to operate at close to full capacity, especially during the summer months.

Planning permission for a change of land use and a site licence allowing the site to operate 11 months of the year would need to be obtained from the local authority. Mains water, electric hook-ups and sewage disposal would need to be installed on the site. In addition, LPG gas would be made available from a bulk tank. Toilet and washing facilities would also need to be built. Initially, Eric and Percy would like to run the camping and caravan site themselves. However, they do realise that in time a site manager may be required.

In addition to the cost of the land, Percy estimates that another £400 000 would be needed to obtain the necessary planning permission and licence and to install the facilities. In addition to using all of *Wattam Grove's* retained profits, the business would need to obtain external finance in the region of £280 000 to help fund this option.

Capital investment appraisal suggests a payback period of approximately three years, with an ARR of 28% over the first seven years of trading.

## **Option 3 – Paintballing**

*Wattam Grove* could purchase three acres of neighbouring farmland and turn it into a paintballing arena. Eric favours this option as he is a keen paintballer. This option would provide all year round leisure facilities for the local community. Initially, *Wattam Grove* would offer four gaming zones – two for scenario games and two for speedball. The farm would recruit two full-time and four part-time paintball employees in order to ensure that the operation is run safely.

Planning permission for a change of land use would need to be obtained from the local authority. In addition, a firearms licence would need to be obtained from the local police. Toilet, parking and office facilities would also need to be provided.

Eric thinks that, with suitable marketing, the paintballing arena could attract corporate team building events, stag parties and group events. He hopes that in the future he may be able to showcase his paintball skills by offering one-to-one coaching to customers for an additional charge.

At a cost of £54 000 for the land, estimated costs of £150 000 to provide the facilities and equipment (including the cost of planning permission and licences) and £20 000 for marketing, the capital budget spend on this option would be in the region of £224 000. This option could be funded entirely from retained profits. There would, however, also be additional revenue expenditure each year to cover the wages of the paintball employees.

Capital investment appraisal suggests a payback period of approximately four years, with an ARR of 20% over the first seven years of trading.

## Appendix 1

### Where is Britain spending?

A gradually recovering economy has helped to nudge up spending on key categories, including entertainment and travel. There are signs that some consumers are now more willing to treat themselves. A Barclaycard survey suggests, however, that the rise in non-essential spending, such as entertainment and travel, stems primarily from those on higher incomes. Those on lower incomes continue to feel the squeeze.

Where consumers are spending on entertainment and travel, the theme seems to be 'little and often'. Although the absolute amounts spent on travel are growing, Barclaycard data shows the Average Transaction Value (ATV) is falling. This suggests that consumers are spending more often, but in smaller amounts.

Spending on entertainment is picking up strongly as improved confidence means consumers on higher incomes, in particular, are more comfortable spending on 'experiences'. Overall spending on leisure and entertainment grew by 13.5% in the third quarter of 2014; spending in restaurants grew by 15.8%. Among Barclaycard Consumer Spending 2014 survey respondents, 22% said that compared with a year ago, they were spending more on 'eating and drinking out'. But as in other sectors, there is still a definite trend towards value. What consumers are after is value-for-money, but this does not necessarily mean cheap.

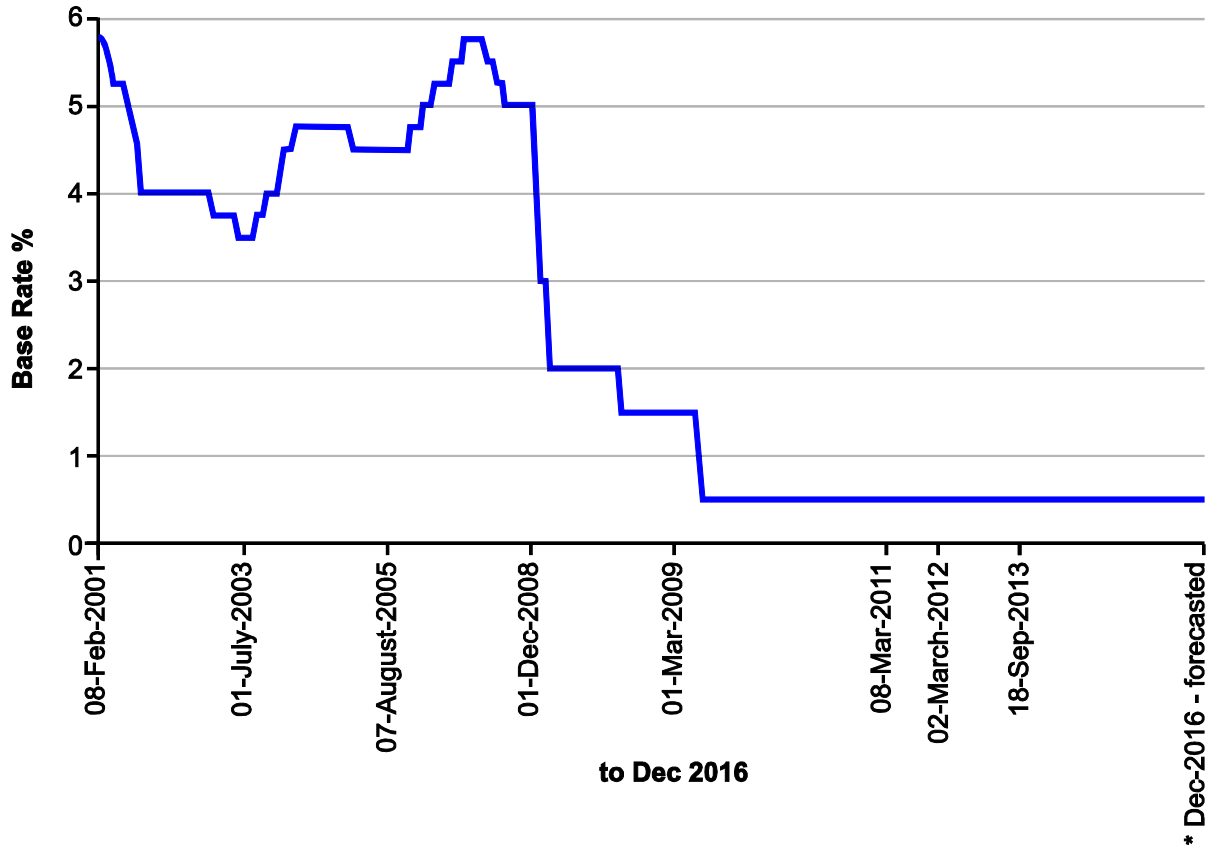
Overall, the trend for higher leisure spending looks set to continue. Some 22% of respondents to the survey said that, over the next three months, they plan to spend more on entertainment.

Source: Barclaycard

## Appendix 2

### Bank of England base rate history

#### Bank of England base rate 2001 to 2016



Source: Bank of England