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AS GCE APPLIED BUSINESS

F242/01/CS Understanding the Business Environment

PRE-RELEASE CASE STUDY

JUNE 2016



INSTRUCTIONS TO TEACHERS

- This Case Study **must** be opened and given to candidates on receipt.

INFORMATION FOR CANDIDATES

- You **must** make yourself familiar with the Case Study before you sit the examination.
- You **must not** take notes into the examination.
- A clean copy of the Case Study will be given to you with the Question Paper.
- This document consists of **8** pages. Any blank pages are indicated.

Freddie's Fleet Ltd

Freddie Small left school when he was aged 16 to work as a car mechanic at his father's garage. The young Freddie was required to work long hours but he enjoyed learning how to strip down an engine, change an exhaust or fit new tyres. Freddie had a long-term vision. He wanted to do more than spend his life looking under a car bonnet. He was particularly interested in finding out how his father ran the business profitably. He was also interested in learning how his father made sure that the business' cash-flow was maintained at a healthy level. At the age of 17, Freddie decided to go back to college to study Business Management. In 1990, at the age of 25, Freddie set up his own vehicle rental business with just ten commercial vans which he had bought at auction. Freddie incorporated his business and called it *Freddie's Fleet Ltd (FFL)*. 5

FFL is now a successful vehicle rental business with at least one branch in every major town and city throughout the UK. The success of *FFL* could, in part, be attributed to its extensive, fully staffed branches, some in areas not covered by its competitors. These offer convenient pick-up and drop-off points for customers, an important element of the marketing strategy developed by Freddie. It is vital to be customer focused in the highly competitive market in which *FFL* is operating. Being ethical is also an important value upheld by *FFL*. At every branch, Freddie makes sure that *FFL*'s code of practice is clearly displayed in the reception area (see Appendix 1). 10 15

FFL has grown steadily over the last 25 years. Currently, it operates a large range of vehicles including light commercial vans, minibuses, refrigerated vans and trucks. The business has survived many economic downturns and is now doing well. Its balance sheet currently shows some retained profit. The ambitious Freddie feels that it is time to expand his business even further. In recent years, he has noticed a growing trend in car-sharing schemes (see Appendix 2). Freddie's expansion plan for *FFL* is to add a car-sharing scheme to the business' portfolio. Car-sharing schemes allow people to rent cars on a short-term, as-needed basis. Customers would only pay for the time they use the car and the total mileage they drive. *FFL* would provide vehicle maintenance, repair and insurance. Car-sharing especially appeals to young people due to the extraordinarily high cost of insurance imposed on young adults. The demand for car-sharing is increasing due to the lack of parking spaces in towns and cities. Even if parking spaces are available, they come at a high cost which makes car ownership unaffordable or unattractive for many. Car-sharing schemes allow individuals the benefits of using a private car without the costs and responsibilities of owning one. 20 25 30

Investing in this market fits well with *FFL*'s current business activities. *FFL* has the experience, the expertise in vehicle renting and, more importantly, the infrastructure needed in terms of the physical outlets throughout the country. However, Freddie is aware that additional members of staff would need to be employed to take on the anticipated extra workload.

To penetrate the market, Freddie plans to set up a membership scheme charging a one-off joining fee of £15. The membership scheme would ensure that *FFL* has a detailed record of who uses its cars, providing protection against vandalism and theft. *FFL* would charge a competitive rate of £0.30 per minute (to a maximum of £12 an hour). For customers who drive over 20 miles in any one trip, there would be an additional mileage charge of £0.30 per mile. 35

Car-sharing schemes are favoured by most governments across Europe as a way of meeting the EU 20-20-20 targets. Freddie is particularly encouraged by the financial support given by the UK government to help set up and promote car-sharing schemes (see Appendix 3). All these factors point to an investment that suggests a high chance of it being successful. 40

Car-sharing schemes also appeal to Freddie for ethical reasons. The schemes ensure customers give careful consideration to the necessity, duration and distance of their trips. This could result in saving energy and reducing pollution. This also improves the environment as there will be less demand for parking spaces, especially in residential areas. 45

To further demonstrate his commitment to the environment, Freddie would like to purchase hydrogen-powered cars for *FFL*'s car-sharing scheme. A hydrogen-powered car's only emission is water vapour, making it much 'greener' than an electric-powered car. A hydrogen-powered car can be refilled in five minutes or less, whereas electric-powered cars can take 10 hours or more to recharge. A hydrogen-powered car can travel for about 300 miles before a refill is needed, whereas a fully charged electric-powered car can be driven a distance of a little over 100 miles. 50

The biggest disadvantage of choosing hydrogen-powered cars is the price. At £20 000 each, they are at least £5000 more expensive than electric-powered cars. Freddie plans to have 200 cars available for hire in each of the following five cities: London, Birmingham, Manchester, Cardiff and Edinburgh. *FFL* would need a capital investment of £20 million for the vehicles alone. 55

Another major capital outlay needed to enter the car-share market is for *FFL* to develop a 'mobile app' which allows customers to locate a car for hire. Having located a car, the customer would have to use his/her membership card to gain access to the vehicle. At this stage the customer is expected to report any damage to *FFL* via the 'mobile app', which also requires the customer to grade the car in terms of its cleanliness. This would then trigger a response if repair or cleaning is required and staff from the branch nearest to the car would attend to the tasks identified by the customer at the end of the hire. When the customer has finished using the car, it is returned to a designated parking space, locked and ready for the next car-share member. The whole process relies heavily on new technology. 60
65

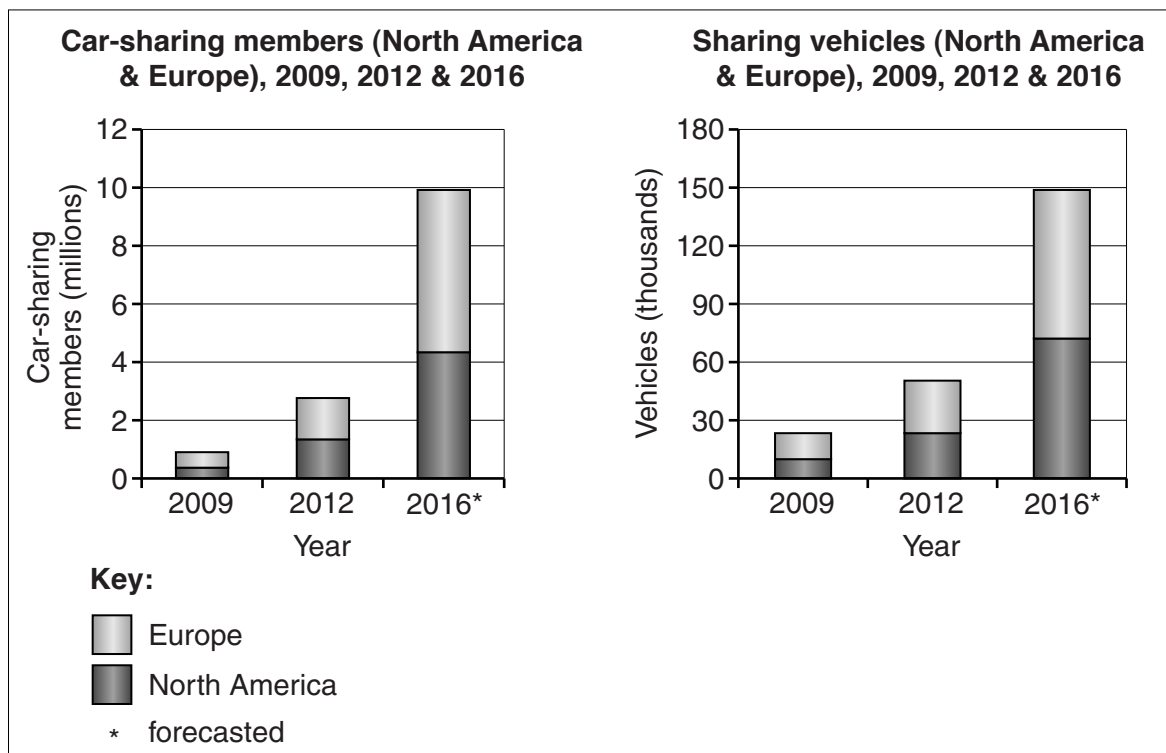
Before a final decision is made to go ahead with Freddie's expansion plan for *FFL*, Freddie would need to analyse the market using different marketing tools. Consideration would need to be given to finding the best way to fund the proposed expansion. Financial plans would need to be drawn up so that budgets can be set and the viability of the investment examined more closely. 70

Appendix 1

FFL's Code of Practice

1. All vehicles comply with statutory requirements with regards to fitness and safety and are maintained to meet the minimum safety requirements for an MOT.
2. No vehicle will be hired with a known defect or in a condition where a defect is likely to occur during the term of the hire.
3. All vehicles shall be clean and fully serviced and prepared for normal use for the type of hire to be undertaken.
4. Where a customer has reserved a specific vehicle type, any subsequent variation due to vehicle unavailability must be discussed with the customer. The customer shall have the right to cancel the reservation and receive a full refund of any deposit paid.

Appendix 2



Appendix 3**£40 000 extra funding for car-sharing clubs**

A national transport charity, Carplus, has been awarded an extra £40 000 to help it promote and develop car-sharing clubs.

It is believed that such schemes are an effective way of tackling congestion, reducing the level of CO₂ emissions and improving the quality of life for citizens and communities.

There are more than 127 000 members of car-sharing clubs around the UK, up from 22 000 in 2007. More than 100 000 of these members are in London.

Governments are committed to sustainable travel initiatives such as car-sharing clubs to help achieve a 'greener' and more sustainable transport sector.

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