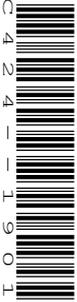


Monday 14 January 2019 – Morning

LEVEL 3 CAMBRIDGE TECHNICAL IN BUSINESS

05834/05835/05836/05837/05878 Unit 3: Business decisions

INSERT



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Chalk Coast Fishing Museum

Chalk Coast Fishing Museum (CCFM) is a small, independent museum located in a village on the East Yorkshire coast. From March to October the museum is open five days a week from Wednesday to Sunday; from November to February the museum is open on weekends only.

The museum is owned and managed by Carl Pickering. Carl inherited the family house and a large collection of fishing and sea-faring items in 1990. Two years later he opened the museum. The museum is located on the ground and first floors of the inherited property, and in some of its outbuildings. Carl lives in a self-contained flat on the top floor of the property. Carl is 57, single and has no children. Carl's father, grandfather and great-grandfather were fishermen off the East Yorkshire coast. Carl has a strong emotional attachment to the local area and his family heritage.

CCFM has three part-time volunteers: Janet and Brian Jones, a husband and wife (former schoolteachers) who retired and moved into the area ten years ago, and Duncan Digby, a retired fisherman who used to work on a trawler based in a nearby fishing village. All three volunteers offered their support to Carl after being frequent visitors to the museum.

CCFM is funded by visitor admission fees and an annual support grant from the local council. Carl depends on *CCFM*'s profits as his only source of income. Without the financial support offered by the local council, *CCFM* in its current form would not be financially viable. *CCFM* has minimal cash reserves of a few hundred pounds.

Over the past five years visitor numbers to *CCFM* have fallen by 15%. Carl is concerned that the museum is not keeping pace with current trends and developments in the leisure market, of which *CCFM* is a part. *CCFM* currently charges an admission fee of £4.00, with the average visitor staying for just under one hour. Carl has conducted some research. The research suggests that the museum is more popular with older people than with young adults and children.

Carl has recently learned that the support grant from the local council is likely to end in three to five years' time. Carl is considering the following three options with a view to implementing one of them.

Option 1 - Upgrade the museum

CCFM would invest £90 000 restoring and upgrading the museum and installing new exhibits. This would include: new interactive displays using digital display technology and a fishing-themed outdoor playpark for young children. This option would be expected to result in an increase in visitor numbers and would require the appointment of two part-time staff. This option would also affect the work of the volunteers; for example they would be required to supervise the playpark and would need training for this.

Carl hopes to secure £50 000 in new grants from national charitable trusts. The remaining £40 000 would be funded by a five-year variable-rate loan with an initial interest rate of 4.5% per annum. Capital investment appraisal for this option suggests a payback period of five years, with an ARR of 3% over the first six years of trading.

Option 2 - Reduced opening hours

CCFM would reduce its opening hours to two days a week throughout the year. The museum would only open at weekends. In addition, all visits would be by appointment only. Potential visitors would book online. Carl would not need any volunteers to help run the museum. *CCFM* currently has no website. The cost of building the website and marketing the museum would be around £5000.

CCFM would fund this option using a two-year fixed-rate loan with an interest rate of 6% per annum. Carl estimates that reducing the opening hours would reduce running costs by £10 000 per year and this would be sufficient to make the museum financially viable. However, the significant loss of revenue would mean that Carl would need to find part-time work to enable him to earn sufficient income. Capital investment appraisal for this option suggests a payback period of three years, with an ARR of 1.5% over the first six years of trading.

Option 3 - Relocate the museum

Carl has heard that a transport museum in a large city is in financial difficulties. The city is over an hour's drive south of *CCFM*'s current location. The owners of the transport museum have contacted Carl. Their proposal is that Carl moves *CCFM* into a vacant building next door to the transport museum. The two museums would remain separate businesses but would market themselves as a single visitor attraction. Visitors would buy a single ticket that would gain entry to the two museums. Carl has estimated that it would cost £160 000 to purchase the vacant property and convert it for use. Two full-time staff would need to be employed to help run *CCFM*.

The city council is keen to regenerate the run-down former dock area of the city and would provide a loan of £40 000 over ten years at an interest rate of 3% per annum fixed for the first five years, converting to a variable rate for the remaining term. As with Option 1, Carl hopes to secure £50 000 in new grants from national charitable trusts. The remaining amount would be funded by Carl from the sale of the house. Carl believes that the sale of the property would generate enough funds to enable him to invest £70 000 into the museum and purchase a small flat in the city, within a short bus ride of the new museum site. Capital investment appraisal for this option suggests a payback period of six years, with an ARR of 8% over the first six years of trading.

Appendix 1

Recent comments from visitors to *CCFM*

"The exhibits are interesting but the way they are displayed bores the children."

"I love coming here, have done for nearly twenty years!"

"I loved seeing the old fishermen's sweaters – I'd love to know more about who made them."

"The museum is a key part of this quiet part of the east coast. Don't change it!"

"It is boring."

"There should be hands-on activities for small children."

"The museum is OK but it would benefit from a website which gave more detailed information."

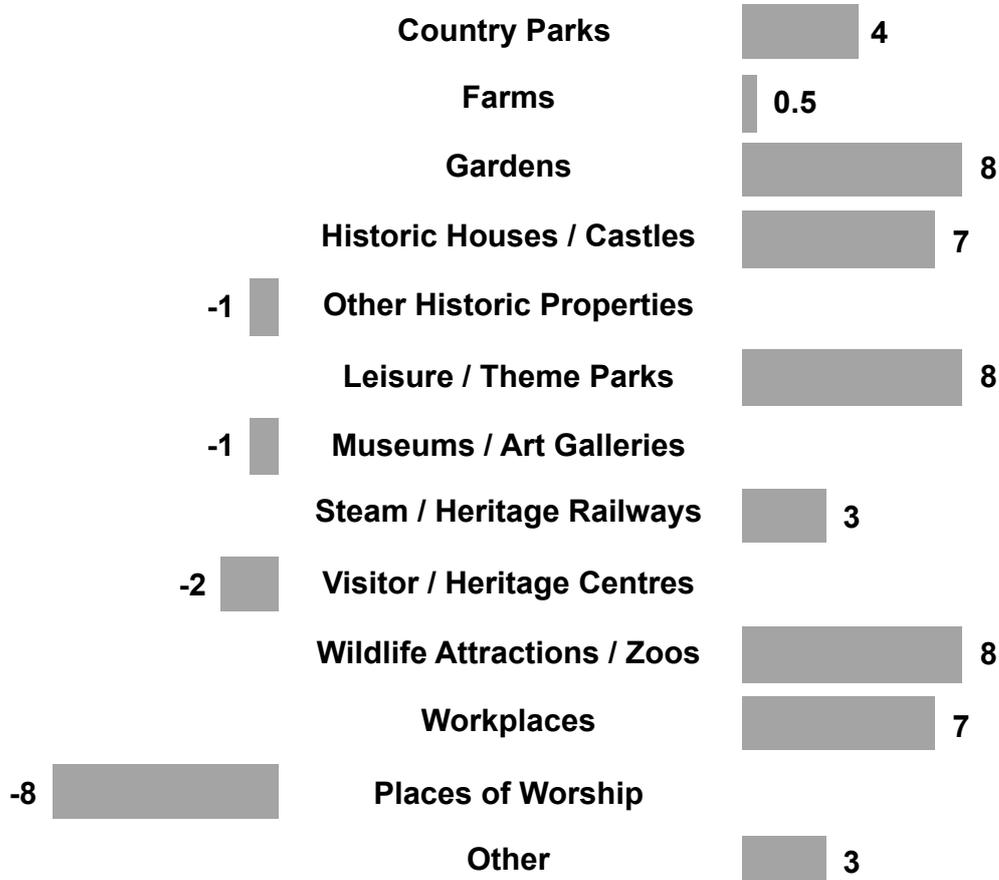
"There is nowhere outdoors for my kids to play."

Appendix 2

UK tourist attraction admission trends 2015 to 2016.

% decrease in admissions

% increase in admissions



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