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Level 3 Cambridge Technical in Business

05834/03/05835/05836/05837/05878 Unit 3: Business decisions

PRE-RELEASE

To prepare candidates for the examination taken on Monday 11 January 2027 – Morning

C430/2701

INSTRUCTIONS

- Do **not** take this copy of the pre-release material into the exam.
- Do **not** take any other notes into the exam.

INFORMATION

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The business

Lynch Audio is a UK-based manufacturer of turntables. Turntables are used (together with an amplifier and speakers) to listen to music released on vinyl records.

During the 1980s and 1990s, vinyl records were largely replaced by cassettes and compact discs (CDs), then by digital formats such as mp3 and music streaming services via the internet. However, since the turn of the century there has been a revival of interest in vinyl records – mainly because users say they prefer the sound quality of vinyl compared to other music formats.

Lynch Audio was started in 2003 by the present owner, Gabi Lynch. Gabi saw a gap in the market for a UK-based manufacturer of turntables of the highest quality. Lynch Audio's turntables are currently aimed at people who are willing to pay a premium for high-quality audio equipment. Currently, it sells its cheapest turntable to retailers for £1500.

Lynch Audio is currently profitable and has cash reserves of £8.5 million, up from £7 million in 2025.

Lynch Audio has three main business objectives:

A To increase profitability year-on-year
B To increase market share year-on-year
C To promote the wellbeing of its employees and society.

The current situation

Lynch Audio currently sells its turntables to retailers in the UK and mainland Europe. Unfortunately, sales of premium turntables, such as those made by Lynch Audio, are slowing in the UK and in mainland Europe. In addition, Lynch Audio has found it more difficult to export to mainland Europe since Britain's exit from the European Union (EU).

In contrast, the worldwide market for premium turntables is growing. Demand for high-quality turntables is particularly strong in Southeast Asia, especially in countries where incomes are rising rapidly.

Young people under the age of 30 in the UK and mainland Europe are also increasingly interested in listening to music on vinyl. However, this market segment is mostly interested in low-priced turntables that Lynch Audio does not produce. Currently only one UK-based manufacturer sells turntables for under £500.

Sales of new vinyl records (which Lynch Audio does not manufacture) continues to grow. The price of new vinyl records is rising. There is evidence that production is struggling to keep up with demand.

Gabi has decided that it is time for Lynch Audio to change in order to continue to achieve its business objectives. Gabi is considering three options.

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Option 1: Focus on Southeast Asia

In addition to selling its premium turntables to retailers in the UK and mainland Europe, Lynch Audio would start selling its premium turntables to Southeast Asia. The turntables would be manufactured close to this market. Gabi has identified a manufacturer in Southeast Asia with whom Lynch Audio could collaborate in setting up manufacturing facilities. Lynch Audio would provide the designs and oversee the manufacturing process. The Asian manufacturer would supply the other resources needed to operate the factory.

Gabi estimates that this option would cost Lynch Audio £10 million in capital expenditure. This would be financed by using £6 million of the cash reserves and a business loan of £4 million, to be repaid at a variable rate of 5% interest over five years. There would also be ongoing revenue expenditure of £3 million per year.

Investment appraisal suggests a payback period for this option of 60 months with an ARR of 5.83% over six years.

Option 2: Manufacture low-priced turntables

In addition to selling its premium turntables to retailers in the UK and mainland Europe, Lynch Audio would also make a new range of low-priced, budget-friendly, turntables aimed at the under 30's, particularly first-time buyers. Manufacturing two different product ranges (premium turntables and low-price turntables) would require an extension of the existing factory. Given the boost to local jobs that would result, obtaining planning permission would not be a problem.

Gabi estimates that this option would cost Lynch Audio £4 million in capital expenditure. This would be financed entirely from cash reserves. There would also be ongoing revenue expenditure of £2 million per year.

Investment appraisal suggests a payback period for this option of 50 months with an ARR of 13.96% over six years.

Option 3: Manufacture vinyl records

In addition to selling its premium turntables to retailers in the UK and mainland Europe, Lynch Audio would also manufacture vinyl records. Lynch Audio would open a new record-pressing factory to make the vinyl records. Gabi has identified a suitable location fifty miles from its current site, in an area of high unemployment. This will enable Lynch Audio to secure financial support from the local council there.

Gabi estimates that this option would cost Lynch Audio £5 million in capital expenditure. This would be financed entirely from cash reserves. There would also be ongoing revenue expenditure of £3 million per year.

Investment appraisal suggests a payback period for this option of 57 months with an ARR of 7.83% over six years.

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Appendix 1

Attitudes of Generation Z (Gen Z) and Generation Alpha (Gen Alpha) to vinyl records

A recent market research report reveals that the vinyl record market is growing quickly in Europe (including the UK) with new, younger customers joining the market.

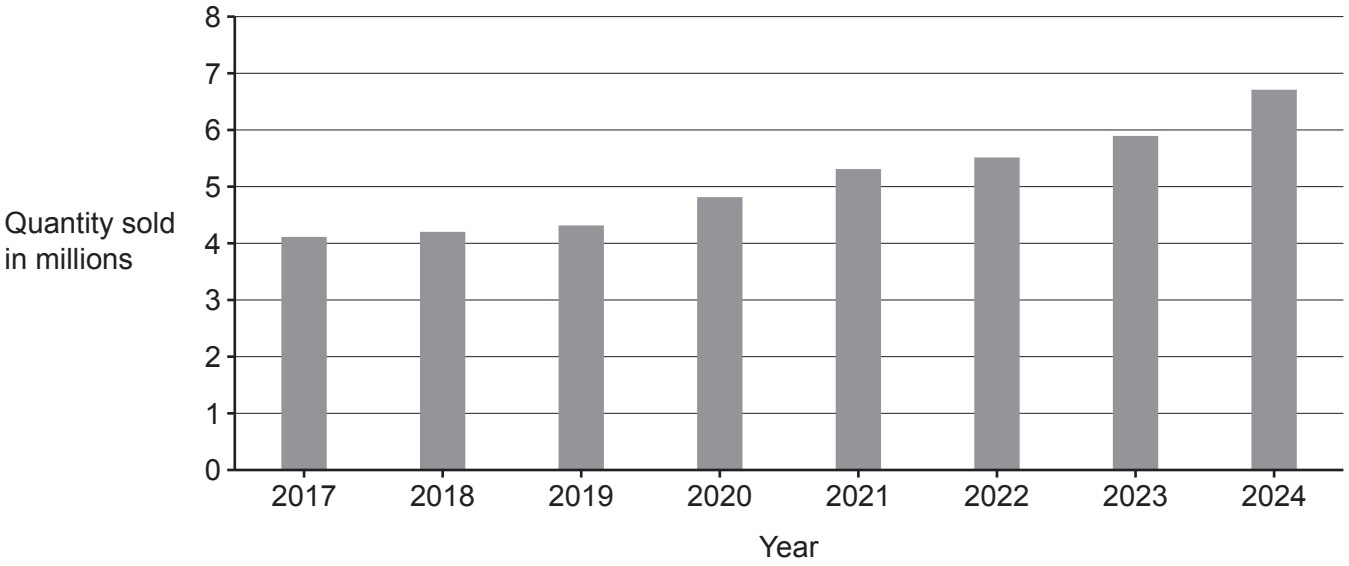
From January to May 2025, leading vinyl record manufacturer Key Production's orders grew by 50%, compared to the same period in 2024.

While Gen Z (born 1995–2010) has played a pivotal role in this resurgence and has driven sales of vinyl records, recent consumer research by Key Production revealed that interest in vinyl records is extending beyond Gen Z, with Gen Alpha (born 2011–2025) now embracing vinyl too.

Research of over 2000 respondents across the UK, found that nearly half (46 per cent) of Gen Alpha is listening to music on vinyl.

Appendix 2

Vinyl record sales in the UK 2017-2024



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