

**January 2012 – June 2012**

**AS GCE APPLIED BUSINESS**

**F246/SM** Financial Providers and Products

**STIMULUS MATERIAL SERIES 7**

**It is intended that this stimulus material is used for the January 2012 and June 2012 examination sessions.**

**OCR supplied materials:**

None

**Other materials required:**

- A calculator may be used



**INSTRUCTIONS TO TEACHERS**

- This stimulus material provides a vocational context for the internally assessed unit: F246 – Financial Providers and Products.
- Each year **one** scenario will be released on OCR's website which will provide an authentic vocational context for candidates' subsequent investigations.
- Although it is intended that this stimulus material is used for the January 2012 and June 2012 examination sessions, there is no shelf life for this OCR generated stimulus material.
- If you wish to generate your own stimulus material for this portfolio unit, please ensure it is fit for purpose and adheres closely to the guidelines laid down in the unit specification.
- There are no separate marking criteria with this stimulus material.
- Once the candidate has produced their financial package, they must then consider its effectiveness, given a change in the future circumstances of their customer. At this point you must provide additional guidance on what these future changes could be, referring to the unit specification as a source of further information.

**INFORMATION FOR CANDIDATES**

- This stimulus material has been created to provide you with a vocational context for the internally assessed unit: F246 – Financial Providers and Products.
- If you have any questions regarding the stimulus material, you must consult both your teacher and the unit specification.
- Once your financial package has been generated you must then consider its effectiveness, given a change in future circumstances to your customer. At this point, you will be provided with additional guidance from your teacher to allow you to carry out this evaluative task.
- This document consists of **4** pages. Any blank pages are indicated.



**A calculator may  
be used for this  
paper**

## BARKING MAD

### William

William has been working as a dog behaviourist since qualifying four years ago. When he left university he initially worked with an already established dog behaviourist in the London area. Two years ago he decided to set up as a sole trader establishing his own business working from home. Most of William's work involves him travelling to customers' homes where he works on a one to one basis with the owner and dog. In addition, he has also created links with local animal charities.

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Since setting up his own business, William has built up a good reputation with a regular flow of customers. Referrals come from local vets and word of mouth recommendations. He is also kept busy working for local animal charities. The recession has meant that there has been an increase in the number of dogs needing to be re-homed. It is the policy of many animal charities to have all dogs assessed by a behaviourist prior to re-homing. This assessment often proves vital in ensuring that the correct dog is matched to the right potential owner. This process has greatly increased the success rate of adoptions. It also means that the new owners often continue to use the services of William after taking their dog home.

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William was really pleased with the business' net profit of £24 000 last year which covered his monthly drawings of approximately £2 000 per month. As a result of the number of enquiries and referrals William receives, he now feels that there is the potential to expand the business.

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### Susie

Having started on a part-time basis when her children were small, Susie has been working as a dog trainer for the last 15 years. On average she is able to charge between £9 and £10 per hour. Susie's net profit for the last financial year was £14 600. However, due to the nature of her job she is limited to part-time work as there are insufficient dog training clubs and private customers in her local area. This, therefore, limits her profit potential. Susie's ambition has always been to establish her own dog training organisation but until now her family commitments have meant that she has never been able to realise this dream.

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### William and Susie

William and Susie were introduced to one another at a barbeque at the end of June 2011. Their conversation quickly turned to their work. Both appeared to have the same dream – own a piece of land, build some kennels and have a base from which to grow their individual businesses. They discussed the possibility of forming a partnership if a suitable property became available. William took Susie's business card and promised to be in touch.

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During July 2011 William found a two acre field with outbuildings for sale at £60 000. The field has good road access and hard standing which could be turned into a car park. The outbuildings could be turned into kennels, as long as planning permission is granted for change of use.

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### The proposed partnership

Following further discussions, William and Susie decided to form an equal partnership, each investing £10 000. Both were able to raise this from their personal savings. They were able to negotiate a reduced price for the land of £55 000. The cost of applying for planning permission to change the outbuildings into kennels and the modifications required would cost a further £10 000. This meant that the partnership would need to raise £45 000 from external sources.

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Currently both partners use personal bank accounts to run their respective businesses. This obviously would have to change. They would need to open a business bank account which would allow them an overdraft, if and when required. They would also need to consider the relevant insurance policies required in order to operate the business. 40

### The proposed new business

William would continue to visit customers at home and to work as an advisor to animal charities. This would mean that he should be able to continue to secure sales of about £2500 per month. He would also be able to offer kennelling for difficult dogs which need intensive retraining. The length of stay would depend on the dog's behaviour problems and the owner's financial ability to sustain the costs. 45

Susie would run group obedience and agility classes, as well as one to one training sessions. She would also work closely with William in the retraining of the dogs which come into the kennels with intensive behaviour problems. Susie envisages that she would be able to run two group classes – Monday to Friday, with four classes on a Saturday. Alongside this, she feels that she should be able to secure four one to one lessons a week. 50

Taken together the partnership would have the following monthly income;

- 6 kennels each earning £25 per day × 15 days a month (initial low estimate of kennel occupancy) = £2250
- 14 group classes of 6 people each paying £40 for a 6 week course = approximately £160 per month per course = £2240 per month 55
- 16 one to one lessons lasting an hour at a cost of £25 per hour = £400 per month

This can be summarised as:

Description of Income	Monthly (£)	Annually (£)
Private visits	2 500	30 000
Kennelled dogs	2 250	27 000
Group classes	2 240	26 880
One to one sessions	400	4 800
<b>Total income</b>	<b>7 390</b>	<b>88 680</b>

Having researched similar businesses, and from their own experience, William and Susie have estimated that their net profit margin would be about 80%. 60

As all of the above figures are based on estimates, the partners have agreed only to draw £2000 each per month from the business for the first 12 months.

### William's personal needs

In order to set up the new partnership William would use up all of his savings. He is currently living in rented accommodation which costs £750 per month, including council tax. He spends an average of £35 per week on food. His mobile phone contract for personal use is £25 per month. His personal motoring expenses add up to £60 per month. His utility bills which are paid by direct debit each month, total £125. He has been saving £250 per month. The remainder of his income has been spent on his social life, trips, holidays, etc. 65

As a result of the proposed venture, William has put his house hunting plans temporarily on hold. However, he will still be looking to purchase a house in the near future and, therefore, would like to find out about the best mortgage deals which are currently available. He is, however, unsure how much a small house would currently cost and the deposit required. In terms of saving for the deposit, he would like to know which banks/building societies are offering the best deals if he tries to save £250 per month. 70

Since leaving university and becoming self-employed, William has not considered a pension. He now feels that at the age of 28 this should be one of his main considerations. He also has no life insurance and such insurance might be useful, especially if he is about to take on a loan in order to start up the new business. 75

However, his real passion is motor bikes. Although he knows that he is making the correct decision to invest in the partnership, he would be utilising all of the money which he has been saving in order to purchase a new motorbike. He is now wondering if he might be able to lease, obtain one on hire purchase or take out a personal loan in order to obtain his dream bike. He is particularly interested in a Yamaha or Triumph Daytona 675. These currently retail at about £6 000 to £7 000. 80



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