

**OXFORD CAMBRIDGE AND RSA EXAMINATIONS
ADVANCED SUBSIDIARY GCE**

F242/CS

APPLIED BUSINESS

Understanding the Business Environment

CASE STUDY

TUESDAY 11 JANUARY 2011: Morning

DURATION: 1 hour 30 minutes

SUITABLE FOR VISUALLY IMPAIRED CANDIDATES

READ INFORMATION OVERLEAF

INFORMATION FOR CANDIDATES

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- You may **NOT** take notes into the examination.

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Food 4 Thought Ltd (F4T)

A winner!

The credit crunch has seen many losers but some winners. The owner of Food 4 Thought Ltd (F4T), Jeremy Green, is one of the lucky ones. Situated in a picturesque village on the outskirts of Birmingham, F4T has seen its sales soar by 20% over the last two years.

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Starting out as a sole trader, Jeremy always had a vision of providing local customers with fresh produce. This vision was made possible by changes in lifestyle as the general public became more concerned about where their food originated (see Appendix 1 on page 8 and Appendix 2 on page 9). Indeed, some food critics believe that we are literally ‘eating our planet to death’!

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F4T’s product range was small to start with, mainly comprising local produce from its own farm. F4T prides itself on its organic and free range foods; from seasonal fruits and vegetables to dairy products and meat. Due to low overheads, F4T’s prices are very competitive, even when compared with the big four supermarkets in terms of their organic and free range goods. The customer base at F4T has expanded rapidly, from local residents to those in the surrounding areas.

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The road ahead

Jeremy cannot believe how much the business has grown from its origins of selling his own farm’s food in a disused barn, to a well-stocked ethical food store, albeit in the same building. He is certainly glad that he dismissed the opportunity to become a franchisee of a chain selling similar products, even

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though the idea seemed very tempting when he first started to expand the business. This led him to turn the business into a private limited company (see Appendix 3 on page 10). Maybe one day, Jeremy thinks, he might be able to franchise his business out to other retailers, or float F4T on the Stock Exchange – his ultimate goal! 35

F4T's rapid growth has brought with it the need for an expansion plan. The existing building is cramped, with produce piled dangerously high. Customers have to follow a one-way system in the store to avoid bumping into each other. The queue at the till is beginning to make customers irritable. Jeremy does not want to upset these customers, many of whom are his friends and loyal, familiar faces, who do their weekly shopping at F4T. The most obvious and economic way to expand would be to build an extension onto the existing barn. This would enable Jeremy to display F4T's products more effectively and give the fruit and vegetable section a more open and welcoming look. Two more tills could be included, in addition to the existing single one, to serve customers more quickly. 40 45 50

Expansion costs

With this vision in mind, Jeremy started to work out the budgets which he would need to allocate for the building works. He discovered that there are different types of budgeting and that budget figures are not always absolute. 55

The cheapest quote for building the extension is £45 000. Redesigning the fruit and vegetable section and the provision of new shelving and redecoration would add a further £5 000. New tills could be bought online for £49.99 each, plus delivery. On top of all this 60

capital expenditure, two more cashiers would have to be employed on minimum wage. Jeremy estimates that the new average wage bill alone would be £3 400 a month. With a bigger building would come higher overheads. Insurance premiums would increase. Heating and lighting would cost more, especially after the increase in the cost of gas and electricity supplies in the last three years.

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The building works are estimated to take approximately three months to complete. Jeremy is hoping to be able to continue trading throughout the process in order to minimise the loss of revenue. However, he anticipates sales to be affected during the three months due to the disruption caused by the construction.

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Although F4T has been doing exceptionally well and there is some retained profit in the business, this will only partially cover the expansion costs. Jeremy would have to find the additional funds from other sources.

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Love thy neighbours
Being an ethical retailer, Jeremy cares a great deal about the impact of the expansion on his neighbours and the environment. He is conscious of the possibility of an increase in the volume of local traffic and noise caused by the additional customers. He would have to have a proper car park built; Jeremy made a mental note to add this to the cost of the expansion. Is planning permission needed for the car park? He knows that he certainly needs planning permission for the extension. More importantly, he would have to carry out a survey to find out how the local community feels about the expansion.

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The Internet generation

Having two teenage sons, Jeremy realises the importance of online shopping. It is one of the cheapest ways of reaching a wider customer base.

This both excites and worries Jeremy, whose ICT skills do not extend beyond word processing. 100

Developing a website is one of the many tasks which Jeremy knows he needs to prioritise. His sons have long urged him to explore the possibility of computerising some of the day-to-day running of F4T in order to save time. The future is full of opportunities, but at what cost? 105

SWOT, PEST or SLEPT?

Michael, Jeremy's eldest son, is studying business at a local college. While Jeremy understands what a SWOT analysis is, he has never heard of PEST or SLEPT analyses. Michael is adamant that all three marketing tools are equally important. Each examines a business and its environment from a slightly different perspective. 110

"Maybe you can look at PEST and SLEPT for me Michael, I have enough to worry about as it is", said Jeremy. Michael replied, "If you don't understand anything Dad, just search for it on the Internet. Alright Dad, I'll have a go for you this time. Don't say I don't contribute at all in this family!" 115

Appendix 1

Ethical food sales to break £2bn barrier

Sales of “ethical” food goods will hit £2bn this year as consumers try to shop with a clear conscience, according to a recent report out today.

Spending on Fairtrade, free-range and organic products has soared by 62% since 2002, research analysts Mintel said.

The huge increase in demand for organic food has led to shortages in organic milk and beef, and prompted concerns that producers are under pressure to lower their standards in order to meet supermarket orders.

However, Mintel said the ethical sector, which includes produce from farmers’ markets and the RSPCA’s freedom food scheme, was on track to become even bigger.

It predicted that Fairtrade products, the sector’s star performer with expected sales of £230m by the end of this year, would enjoy a further 138% growth over the next five years, pushing annual sales to around £547m.

Mintel said the rise in sales was driven by increased disposable incomes and changing customer attitudes.

More than one-third (34%) of consumers now bought Fairtrade “where available”, compared with 26% in 2002, it said. And 40% choose free-range products “whenever they can”, up from 33% in 2002.

Mintel said around 70 new “ethical” products were launched in the UK alone last year, up from 25 in 2002.

Appendix 2

What are food miles?

“Half the vegetables and 95 per cent of the fruit eaten in the UK comes from beyond our shores”.

Thanks in part to concerns about climate change, more people are stopping to consider the impact which everyday goods – including food – have on the environment. Food miles, the distance food travels from field to plate, is a way of indicating the environmental impact of the food we eat.

Increasingly, it arrives by plane – air travel is one of the forms of transport which gives off the most CO₂. Agriculture and food account for nearly 30 per cent of goods trucked around Britain’s roads and, according to a Government report in 2005, the resulting road congestion, accidents and pollution cost the country £9bn a year.

Appendix 3

The Leader Supermarkets franchise includes the following:

- **Full training which is both office based and on the job. This covers all aspects of running a Leader Supermarkets franchise**
- **Trading under the Leader Supermarkets brand name**
- **An exclusive territory for you to trade in**
- **Permanent ongoing head office support in all aspects of running your Leader Supermarkets business**
- **Complete shop start-up package which includes:**
 - ▶ **£8 000 stock**
 - ▶ **computer system and software including stock control**
 - ▶ **shop signage**
 - ▶ **flooring**
 - ▶ **racking**
 - ▶ **shop counter**
 - ▶ **fridge**
 - ▶ **freezer**
 - ▶ **Leader Supermarket uniforms**
 - ▶ **plastic shopping bags**
 - ▶ **scales**
 - ▶ **initial marketing and advertising launch**
- **Full training – on our company, operations, products and all aspects of running your own Leader Supermarkets franchise**
- **Operations and resource manual**
- **A dedicated and integrated web presence and e-mail**
- **500 letterheads**
- **500 envelopes**
- **5000 leaflets**

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