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**OXFORD CAMBRIDGE AND RSA EXAMINATIONS**

**Thursday 12 January 2023 – Morning**

**Level 3 Cambridge Technical in Business**

**05834/05835/05836/05837/05878**

**Unit 3: Business decisions**

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## **INSTRUCTIONS**

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## **INFORMATION**

**This Insert contains the pre-release material that you have already seen.**

## **OLIVE TREE VETERINARY CLINIC**

### **The business**

**Olive Tree Veterinary Clinic (OTVC) is a small independent veterinary practice based in a town in the English Midlands. OTVC specialises in providing a range of services to owners of traditional household pets such as cats and dogs. These include treating minor injuries, providing inoculations, dental care and looking after pregnant animals.**

**The business was started in 2008 by Amir Sultan shortly after he qualified as a veterinary surgeon (vet). In 2015 he was joined by another newly qualified vet, Heidi Miller. Together they own OTVC, trading as a partnership. OTVC operates from a large Victorian building in the centre of town. The building has limited car parking facilities but is near a bus stop. The business currently employs four part-time support staff and two full-time veterinary assistants.**

**Both partners have an equal share in the business and depend for their income on an equal share of the net profits. At the start of each year, Amir and Heidi estimate OTVC's net profits for that year and withdraw 5% of it each month to divide between them so as to provide each of them with an income. At the end of each year, once actual profit has been calculated, Amir and Heidi decide how much of any remaining net profit to take out as additional drawings or retain in the business.**

## **The market**

**The market for veterinary services is very competitive. There are several other veterinary practices within a twenty-mile radius of OTVC. Over the past few years there has been consolidation in the industry. Many smaller veterinary practices have merged to form larger partnerships or have been absorbed into larger chains of branded veterinary businesses. Amir and Heidi pride themselves on the quality of the care they provide to their animals. Many of OTVC's customers feel that this quality justifies the partnership in charging slightly higher prices than those charged by some of the other veterinary practices in the area.**

## **The problem**

**Ever since the Covid pandemic started in 2020, OTVC has been struggling. In 2019 it had over 1800 customers on its books, but by late 2022 this had fallen to fewer than 1600. As a result its financial performance has also suffered and the two partners have seen their incomes fall. The business' reserves have also fallen to £30 000.**

**Heidi and Amir have each been thinking about their long-term vision for the practice. Heidi would like to see the business merge with an existing branded veterinary practice in, say, ten years' time. In contrast, Amir wants the business to remain as a relatively small independent partnership. He believes that customers prefer independent veterinary practices that offer a high standard of care. Amir is against the idea of merging with a branded veterinary practice.**

The profile of potential customers in the area has also been changing. In recent years there has been a trend towards owning exotic pets such as reptiles, birds and fish. In addition, the local area has seen an increase in the number of people riding horses and, as a result, more horse riding schools have opened. Neither Amir nor Heidi specialises in exotic pets or horses, and so potential customers are taking these animals elsewhere.

Amir believes that the recent trend for exotic pets is a short-term fashion and people will eventually return in large numbers to traditional small mammals such as dogs, cats, rabbits and hamsters. Heidi thinks that the move away from traditional pets such as cats and dogs is a long-term trend that will not go away. They both agree that horses are likely to remain popular for the foreseeable future.

Heidi would like OTVC to offer care to a wider range of animals. To this end she would welcome the addition of a new vet (either as an employee or as a partner) who specialises in exotic pets or horses. Whilst Amir is not against the idea of caring for a wider range of animals, he is concerned about adding a new partner. Amir is worried that any new partner might not share his vision for the long-term future of the practice.

Neither Amir nor Heidi have experience of managing a business through a period of major change. For example, neither of them has knowledge of project management or investment appraisal. Heidi has asked an external consultant to help her develop three options for the future of OTVC. The external consultant has been asked to calculate some financial forecasts for each option based on estimates Heidi has prepared. All financial forecasts are net of salaries and the partners' monthly drawings from the business.

**OPTION 1: Relocate to new premises**

Heidi has become aware of some new premises that have become available recently on the town's bypass. The property is slightly smaller than the existing premises but has more car parking facilities than at the existing premises. The existing premises would be sold for approximately £165 000 and this amount would be added to OTVC's cash reserves. The purchase and renovation of the new building would be paid for using the additional cash reserves plus £15 000 of the existing cash reserves.

The external consultant estimates that although this option would require capital expenditure of £180 000 it would result in reduced revenue expenditure of £20 000 a year. Investment appraisal suggests a payback period for this option of 4 years and 3 months, with an average rate of return (ARR) of 4.44% over the first five years.

**OPTION 2: Introduce equine care**

The practice would set up a new equine care centre in a converted farm building in a nearby village. A new partner, a fully qualified vet who specialises in equine care, would be added to the business. The new partner would be expected to invest £60 000 into the business. The remainder of the funds would come from reserves. The new partner would receive income in the same way as Amir and Heidi.

The external consultant estimates that this option would require capital expenditure of £80 000 and additional revenue expenditure of £20 000 a year. Investment appraisal suggests an average rate of return (ARR) of 11.25% over the first five years.

**OPTION 3: Introduce care for exotic pets**

The practice would expand the range of services it offers to include veterinary care for exotic pets. Funds would be needed to convert part of the existing premises. This would be funded using existing reserves. Instead of adding a third partner, Heidi and Amir would employ a new full-time associate vet.

The external consultant estimates that this option would require capital expenditure of £30 000 and additional revenue expenditure of £70 000 a year. Investment appraisal suggests a payback period for this option of 3 years and 4 months, with an average rate of return (ARR) of 16.67% over the first five years.

## **APPENDIX 1: UK Pet Ownership 2021, by animal type**

<b>Pet</b>	<b>Number of animals owned (millions)</b>
<b>Dogs</b>	<b>12</b>
<b>Cats</b>	<b>12</b>
<b>Indoor birds</b>	<b>1.5</b>
<b>Chickens/outdoor birds</b>	<b>1.2</b>
<b>Rabbits</b>	<b>1</b>
<b>Guinea pigs</b>	<b>0.8</b>
<b>Hamsters</b>	<b>0.6</b>
<b>Horses/ponies</b>	<b>0.5</b>
<b>Pigeons</b>	<b>0.5</b>
<b>Tortoises/turtles</b>	<b>0.4</b>

## **APPENDIX 2: Veterinary care in the UK**

**The number of businesses involved in veterinary activities continues to increase. In 2018 there were 4058 veterinary businesses based in the UK. In 2020, the number of vets employed in the UK was approximately 28 900.**

**In the UK the practice of veterinary medicine is regulated. Veterinary medicine can only be performed by fully qualified and regulated professionals. Pets make up an important aspect of family life in the UK. Households spend over five billion pounds on veterinary services each year.**



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