



**BUSINESS AND ORGANISATION  
HIGHER LEVEL  
PAPER 1**

Friday 16 November 2001 (afternoon)

2 hours 15 minutes

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**INSTRUCTIONS TO CANDIDATES**

- Do not open this examination paper until instructed to do so.
- Read the case study carefully and then answer all the questions.

## CASE STUDY

### SMITH FARM

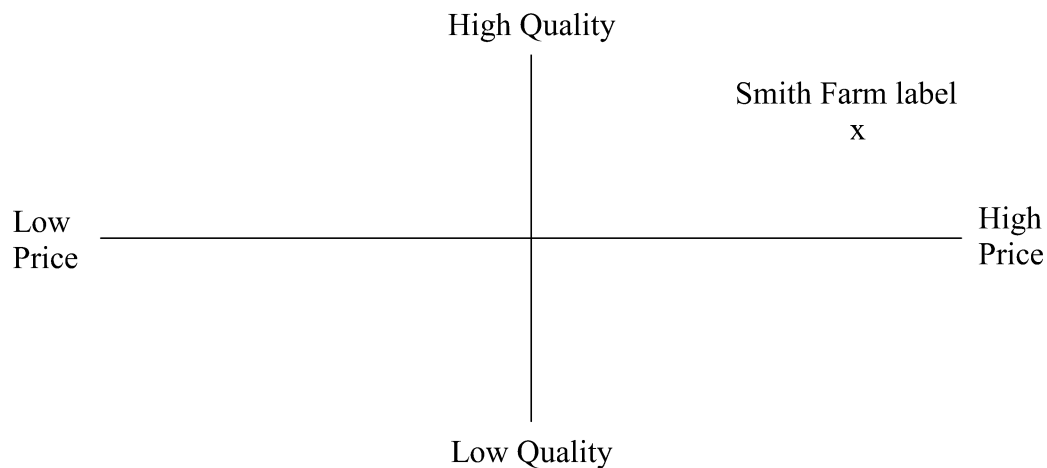
Frank Smith is a farmer who inherited a farm from his father. The family has owned it for over 100 years. After a long period of making a loss, the farm's profit levels have begun to increase. This is due to an increase in the number of shops buying directly from farmers, and greater interest in organic<sup>1</sup> produce from consumers.

- 5 Frank has 6 staff working for him, 2 managers and 4 farm assistants. The 2 managers work 40 hours per week. The farm assistants work 48 hours per week, splitting shifts between them.

- 10 10 years ago Smith Farm was the target of protesters who were angry that Frank used pesticides on his crops that were not environmentally friendly. In the past 5 years, the farming methods have changed in line with public opinion. Frank is now very proud of his products which are organically grown, using environmentally friendly methods and sold under the Smith Farm label.

**Figure 1**

Position map for Smith Farm label products



- 15 The success of the products sold under the Smith Farm label has enabled Frank and his wife Valentina, to secure a loan from the bank to refurbish an old barn and open a shop. This will enable Frank and other local farmers to join together to sell meat, dairy and vegetable products directly to the public. They are also planning to set up a website to sell products on the Internet.

The main costs would be refurbishing the barn, fitting out the shop, setting up the website, marketing the products and paying staff.

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<sup>1</sup> Organic produce is produced using environmentally friendly methods and ensuring the welfare of all livestock.

20 They estimate the following costs and revenue in the first year.

**Figure 2**

**Expected revenue per month for year 2000**

<b>Month</b>	<b>Sales from shop \$</b>	<b>Supermarket revenue (received 2 months in arrears)</b>	<b>Internet Credit Sales (received 1 month in arrears)</b>
January	2 000	6 000	3 000
February	2 000	6 000	3 000
March	1 800	5 400	2 700
April	2 500	7 500	3 700
May	3 000	9 000	4 500
June	3 000	9 000	4 500
July	2 800	8 400	4 200
August	3 500	10 500	5 200
September	2 400	7 200	3 600
October	2 800	8 400	4 200
November	2 600	7 800	3 900
December	3 500	10 500	5 200

Other Revenue

Bank loan \$100 000

**Figure 3**

**Expected Costs**

Refurbishment of barn	\$30 000	Paid in January 2000
Packaging machine	\$50 000	Paid in January 2000
Wages	\$2 000	monthly
Products from other farms	30 % of total sales per month	
Own drawings	10 % of total sales per month	
Electricity, telephone and gas	\$3 200	Paid in 4 instalments in January, April, July, October
Website management	\$1 000	monthly
Advertising	5 % of total sales per month	
Transport	\$1 000	monthly

To improve the storage of his products Frank will have to invest in a packaging machine, at a cost of \$50 000. This would bring a rate of return of \$15 000 per year over a 5-year period. At the end of 5 years Frank expects to sell the equipment for \$5 000.

25 The opening of the shop would improve business, but this is unpopular with local residents, because of the increased traffic, particularly at weekends.

30 The bank is concerned at the lack of formal agreement that Frank has with the other farmers, who could stop supplying Frank at any time, or could insist on receiving an increased percentage from monthly sales. Frank would find this increased cost very difficult to pass on to the customers. Frank therefore agrees a contract with the other farmers who become formal partners in the business. This means that all partners are responsible for any debts that might occur in the future.

35 Frank is still concerned about the lack of support from the government for the farming industry, to help them to stay in business. There is an increasing trend for supermarkets to buy the cheapest products they can, from different countries. The products are cheaper from other countries because technology is less advanced, labour costs are low and health and safety legislation is less stringent.

40 Valentina called a meeting of the farm staff to explain the changes to them. In the initial stages of setting up the shop and Internet service, each of the farming assistants would take it in turns to work in the shop. Basic training in taking orders and money management would be provided. The staff are not happy with these new duties. However, because they are worried about their job security they agree to the change in duties.

1. Explain **two** reasons why Frank Smith changed his farming methods from using pesticides, that are not environmentally friendly, to producing organic products. *[4 marks]*
2. (a) Suggest **two** ways in which Frank Smith could improve relations with the local residents. *[2 marks]*
- (b) Discuss **three** advantages, for Frank Smith, of drawing up a contract with the other farmers and setting up a partnership. *[3 marks]*
3. Calculate the net present value of the packaging equipment using a discount rate of 10%. *[6 marks]*

Present value of \$1 receivable at an annual discount rate of 10% at the end of

Year 1	2	3	4	5
0.909	0.826	0.751	0.683	0.621

4. (a) Construct a cashflow forecast for the year 2000. *[8 marks]*
- (b) Analyse **three** ways in which Frank Smith could improve the cashflow situation. *[3 marks]*
5. Apply the marketing mix to the Smith Farm label range and evaluate how Frank Smith could market his product range successfully (i) locally and (ii) on the Internet. *[8 marks]*
6. Assess **three** implications for the staff of the job role change from farm assistant to shop assistant, using appropriate motivation theory to support your answer. *[6 marks]*
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