



Oxford Cambridge and RSA

## A Level Business

**H431/01** Operating in a local business environment

Resource Booklet

**Monday 18 June 2018 – Morning**

**Time allowed: 2 hours**



### INSTRUCTIONS

- This is a Resource Booklet.
- You should refer to it when answering the examination questions in Section B, which are printed in a separate booklet.
- The business described in this Resource Booklet is a real business.

### INFORMATION

- This document consists of **4** pages.

## Help UK

Help UK is a charity that offers counselling for individual and family relationship problems. One feature of the service it provides is that counselling is offered to those who need it at a subsidised rate (for example the unwaged). One way the charity gains funding is through shops it operates all over the UK. People donate unwanted items which are then sold to the public. Unlike many charities, all profits from the shops go towards local projects supported by Help UK.

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Michael Warner is the manager of a Help UK shop located just off the high street in Macclesfield, Cheshire. The charity also operates another, larger shop in a town about nine miles away. Michael had been a senior manager in a marketing company before taking early retirement ten years ago. He took this job because he wanted 'a change of direction that would enable him to help others'.

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Michael is contracted to work four days a week at the shop for which he is paid a salary – although he typically works, unpaid, for longer than that. His deputy manager, Ann, who works two days a week, also receives a salary. There are eight other volunteers who, two at a time, staff the shop. They are not on a contract and are not paid. Labour turnover among the volunteers is quite high.

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There is a five-year lease on the shop for which a full commercial rent is paid. There is no discount for operating as a charity shop, although charitable status does mean a reduction in the Business Rate paid to the local council. Water and electricity bills also have to be paid in full. The shop has a small room behind the selling area where items donated by the public are sorted and stored.

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Financial targets for the shop are set by Help UK's regional office. These targets are **not** the same for all shops in the region. They depend on the location, the size of the shop and the socio-economic demographics of the area it serves. The targets are usually increased by the regional office every year.

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The shop is open from 9am to 4pm Monday to Friday and from 10am to 3.30pm on Saturdays. Sales are affected by the season and by the state of the economy. Unsurprisingly, trade increased during the recession following the 2008 credit crash. Sales growth slowed a little as the economy then recovered but have "remained steady", according to Michael, for the last few years. Revenue is £5 000 a month on average, but rent, business rates, utility bills and two salaries have to be paid out of this. The shop is a success and has always met its targets since Michael has been running it.

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The shop's main customers are mothers with young children, who live locally. There are also quite a few (typically retired) people who travel around to these types of shops looking for bargains, such as antiques and designer-label clothes. Young people are not frequent visitors.

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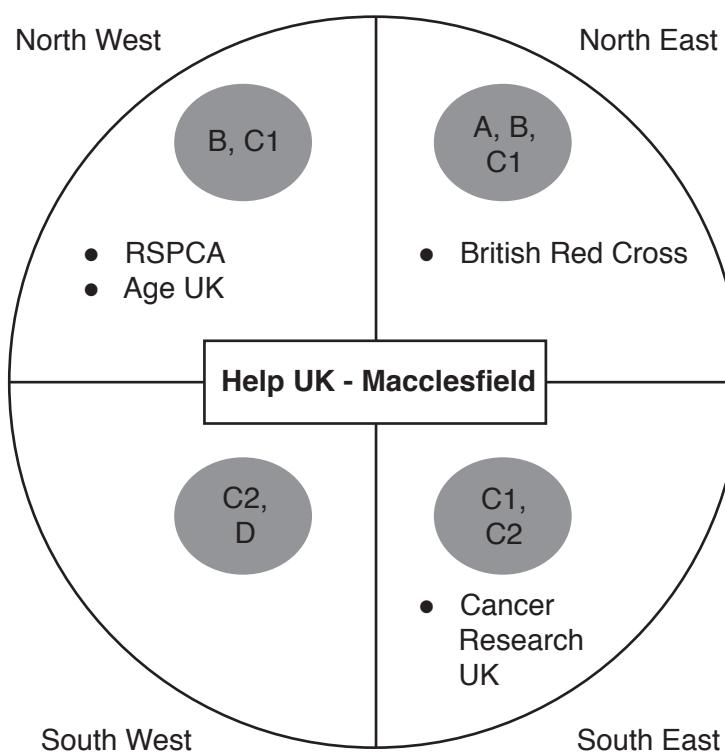
Although the shop is part of a charity, this does not mean Michael can ignore the principles of running a business. There are budgets and targets to meet. Staff have to be recruited and managed which is not always easy. People who volunteer often also work for other charities and so their hours have to be carefully negotiated. Also, just because they are volunteers does not mean they can simply be 'ordered around'. They need to be kept motivated and trained to meet customer needs; poor customer service has to be avoided. It is difficult to staff the shop in the summer when volunteers often have childcare issues during the school holidays.

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In recent years, a number of other charity shops have opened locally. Michael sees these as competitors, in the same way any retailer would view the emergence of a similar shop, and he always aims to undercut their prices (**see Fig. 1**).

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**Other charity shops and mix of population by socio-economic group within a two-mile radius of Macclesfield**



**Fig. 1**

Social trends have also affected the shop in the same way as other retailers. The growth of online purchasing has reduced the number of people visiting their local high street.

Michael sees his biggest challenges to be knowing the customer, getting the pricing right and managing the staff effectively. With so many different factors affecting it, the shop faces a considerable amount of uncertainty.

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What the shop sells depends on what is donated. Michael is often amazed by the high quality of the items, particularly clothing. Clothes, books, ornaments and DVDs make up the majority of the donations but unusual items do appear occasionally. These have included a bag with several gold rings in it, a complete drum kit and a brand new 'Mulberry' handbag.

The aim is to sell stock within three weeks of it being donated. If items do not sell in this time Michael will discount them heavily in 'bargain buckets'. Selling items as quickly as possible is important, not only to generate revenue but also to ensure that stock does not clutter the limited space in the shop. Sometimes it is so full that Michael has to refuse donations. He does not like doing this as, if someone feels that their assistance has been turned down, it creates a bad impression and is likely to deter future donations and purchases.

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The average amount spent by a customer on a visit to the shop is £3. **Table 1** shows the types of items on sale in the shop.

### Items on sale in the Macclesfield Help UK shop

Item	Typical Price
Clothing	£2 to £3
Ornaments & Jewellery	£2
DVD	£1.50
CD	£1
Games	£1
Books	50p

**Table 1**

Michael does not do much marketing – only occasional advertisements in the local newspaper. He says, “I’d like to do a bit more marketing but I don’t have the resources”.

The lease on the shop premises is shortly due for renewal and Michael, who has discussed this with the landlord and Help UK’s regional office, is fairly certain that the decision will be taken to renew it. Therefore, at the end of 2017, Michael made some financial forecasts, one of which is shown in **Table 2**. He assumes that the inflation rate will be 2% over this time period.

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### Net profit forecast for the Macclesfield Help UK shop

Year	Net profit (£)	Discount factor (2%)
2018	24 000	.980
2019	26 000	.961
2020	29 000	.942

**Table 2**

Michael believes that, if the lease is renewed, the business will continue to be a success and impact positively on its local stakeholders.

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**NB:** Help UK is a real national UK charity. However, to protect sensitive information, the name of the charity, the location of this shop and the name of its manager have been changed.



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