

Paper Reference(s)

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Advance Information

Edexcel GCE

Business Studies (9076)

Advanced

Advance Notice of Case Study for
Unit 6: Corporate Strategy

June 2009

This paper may be opened on
Monday 16 March 2009

Instructions to Candidates

In preparing for the Case Study paper, candidates are advised to undertake general revision as well as detailed investigation of issues relating to the Case Study.

This Advance Notice should **not** be taken into the examination. A copy of the Case Study will be included with the examination paper.

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Turn over

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CONTEXT

Driven to the crossroads

When the first driving test was taken in June 1935 by a Mr Beene, it cost the equivalent to 37.5 pence in 2009 values. There were only ten road signs to cope with and the early pass rate was 63%. In the mid 1930s there were only 2.3 million vehicles on the road, yet there were around 7500 fatalities annually.

If only it were that simple now, Eleanor Thorne thought to herself as she read over the latest set of trading figures for Junction 1 Driver Training Ltd (J1), the business she had started in 2000 (see Appendix 1). Much had changed even since then; the business environment in which Eleanor now operated had many responsibilities to consider. Today there are over 30 million vehicles on Britain's roads and yet just 3180 fatalities were recorded in the year to March 2007, for example. Conversely, Eleanor was well aware of the growing concern about pollution and global warming, including the role of CO₂ emissions and her responsibility to various stakeholders. 5 10

At first trading on a self-employed basis under a franchise from a large driver training provider, Eleanor had made a fair living and, with good pass rates, she had soon attracted direct customers, encouraging her to launch her own driving school. The next major step she had taken had been to take over SS Instruction (SSI) the business of her mentor Saul Sparrow, when he retired in 2002. This had brought with it two fairly new vehicles and two franchised qualified instructors, plus a lease on a small office. Eleanor had amalgamated the new additions into J1. She felt that a name that reflected something about the business was important. As she was located near to Junction 1 of the M5 Motorway, the name told people from where she was operating and she felt number one was associated with being the top, so she had chosen that name. At the time, she had often worried long into the night about whether this was a step that had come too soon. However, the bank had been amenable to a loan against the house which she inherited from her grandfather, David. With a lot of hard work and the long and often unsociable hours associated with driver training, Eleanor had made a success. 15 20 25

Eleanor soon realised that, unless she expanded, the earning potential was always going to be constrained by her available hours. Growth would mean more exposure to financial risk, so J1 had become a private limited company on 1 January 2004. The next phase had been to engage the services of additional instructors. Some had worked on a salary basis with commission for bookings. Others were self-employed and were paid an hourly rate for all lessons delivered as a result of bookings from J1. Eleanor paid the instructors a Pass bonus for every successful student, since her major objectives had always been quality of instruction and the ultimate safety of her students. Eleanor was also considering reviewing her operations in the light of an increased focus on environmental issues. Eleanor reasoned that profit would come from satisfied staff and customers – after all, the most cost-effective form of advertising was positive word of mouth. J1 now offered a range of services, all very much different to the early days, she thought as she looked up from examining the accounts to the stack of promotional material ready to go out. 30 35

Eleanor's grandfather was a vehicle engineer and her Uncle Mike was a successful rally driver which probably explained her interest in cars. Eleanor was also a keen sportswoman and had rowed at university and qualified as a gymnastics coach and fitness instructor, whilst studying for a Business Management Diploma. She now found it hard to get the exercise she wanted while sitting behind a steering wheel for long hours and then spending more time in front of her computer recording the day's transactions and other necessary tasks in the running of a 40

small limited company. Although she paid a fee to AH Accountancy Services to prepare the accounts and tax returns, the various demands on her time were likely to get worse because her administrator, Lorraine Melrose, was leaving. 45

Lorraine, employed to answer telephones and make appointments, do the payroll and commission payments, had announced she was getting married and moving to London. This would make it impossible to commute to J1. It had always been understood that Lorraine would leave her administrative role at some point, as she had recently qualified as an Approved Driving Instructor (ADI) under Eleanor's guidance and tutelage. She had intended to join the instructor staff at J1. A similar thing had happened with Lorraine's predecessor who had left to join a competitor three months after completing her training. This had caused Eleanor to reflect on the drawbacks of training staff and then losing them. 50 55

On a rare visit to the local Chamber of Commerce networking evening, Eleanor had listened with keen interest to the presentation by a member of the Fitness Industry Association, an industry which evidently shared some features with Driver Training. It was there that Eleanor had met Jaspal Singh, who was the Managing Director of UKDT, one of the ten largest providers of driver training in the UK, with offices in most major towns and cities. Eleanor had suspected it was not coincidence that they had met and indeed Jaspal suggested a formal meeting for noon the next day. 60

Over a light sandwich lunch at the meeting, Jaspal asked Eleanor what price she would accept for J1 if UKDT wanted to buy her out. He explained that they had a corporate objective of expanding market share by 10% by 2010 and raising revenues to £25m, with growth by acquisition the preferred strategy. A considerable investment in computer resources was planned, such as providing laptops for instructors. Development of UKDT's Information Management Systems (IMS) was seen as key to the success of the growth plans. He showed Eleanor the UKDT product portfolio (see **Appendix 2**) and said a position of Regional Manager was available, at a salary to be agreed, if Eleanor would be part of the merged businesses. 65 70

Eleanor asked for seven days to consider the approach. The gym, part of a large chain, which she had joined when her local private gym had closed, was often crowded and yet there were grumbles from some of the more serious, sports oriented members such as Eleanor herself, about the standard of some of the equipment. Was this the opportunity to leave an increasingly crowded driver training industry and follow her other great passion, which was sports coaching and fitness by setting up her own gym – or would that be a case of jumping out of the frying pan and into the fire? 75

Yes, indeed Eleanor had once again arrived at a crossroads.

Appendix 1

Junction 1 Driver Training Ltd

Extract from the accounts for the year ending 31 December 2008

Turnover	£495 260
Direct costs	£385 000
Indirect costs*	£90 000
Net profit	£20 260

* Eleanor's salary entered at £35 000

Appendix 2

UKDT Ltd Product Portfolio

As one of the largest providers of driver training in the UK, we are proud to be able to offer our customers a range of products:

Private Drivers

- In-car training, including 'show me, tell me'

- Computer simulated hazard perception

- Theory coaching – including mock tests

- Pass Plus

- Get home safely for female drivers

- Getting back behind the wheel – tuition for re-tests after disqualification, or after a long break from driving

Fleet Drivers

- Refresher lessons

- Defensive driving

- Driving on the continent

- Economical driving

Additional Data

Driving Licence Statistics 2007

Number of UK driving licences: 34 696 480
Estimated that 70% of adult population hold a licence

Source: DVLA

New Car Registrations (million vehicles)

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
2.171	2.247	2.198	2.221	2.459	2.564	2.579	2.567	2.418	2.344

Source: SMMT

UK Demographics

Average life expectancy for citizens in 2007: Female 81 years, Male 76 years
Estimated population in mid-2006: 60.6 million, slightly skewed towards female
Largest age group are people in their 40s, 1 in 5 are aged under 16, 1 in 6 are aged over 65

Source: UK Govt Statistics

Extract from the Chamber of Commerce speaker's presentation

UK market for fitness providers estimated at £3.6 billion (turnover), of which £1 billion is supplied by public providers

12% of the UK population are registered with a fitness facility provider

Year-on-year growth in membership 3%

Almost 90% of the UK population live within two miles of a private health club or a publicly owned fitness facility

UK CO₂ Emissions

Percentage of total UK CO₂ emissions by major sector

Sector	% of UK total emissions
Energy production	35.0%
Road Transport	20.1%
– of which Cars	= 11.7%
Other transport	= 8.4%
Domestic Use	14.0%
Aviation	6.3%

Aviation is cited as the fastest growing sector.

Vehicle production facilities are estimated to have halved CO₂ emissions over a four year period and average new car emissions are said to have reduced by 12% in nine years. Reasons include bio fuels, hybrid engines, low emission diesels and improvements in fuel economy.

Source: SMMT

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