

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

February 2010

This paper may be opened on  
Monday 2 November 2009

### **Instructions to Candidates**

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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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## CONTEXT

### Growing Things

When John Bhassi founded Kings Wood Garden Centre (KWGC) as a private limited company in 2000, it was a case of “follow your dream”. He had graduated from Evergreen Horticultural College (EHC) in 1999 with a BSc in Horticulture and later added a Masters in Business Administration through the Open University. After initially graduating, he spent a little time working for the same garden centre at which he had carried out the six-month placement that was part of his degree course. However, when he made suggestions for improvements which were not accepted he became frustrated. Whilst working, he actively looked around the country for an opportunity to start his own business. He became aware of the considerable growth in new-build housing; these new houses he reasoned would need new gardens. Eventually he found a plot of land for sale five miles away from the centre of Greensville, a developing new town in the Midlands. The site had a small cottage and sold home-grown vegetables from a roadside stall. John decided this was the opportunity to enter the world of the self-employed horticulturalist. Armed with a business plan he went to see his Bank Manager to try to get the loan he would need. 5 10

Ten years later, with KWGC filling the original site, he had his first Gold Medal from the Royal Horticultural Society (RHS) and was a regular exhibitor at the Chelsea Flower Show. 15

John is now writing a book about his success. Pushing back his chair from the keyboard as he completes the last but one chapter, he recognises that he is married to the job, never having found the right relationship, meaning he has no family to inherit the business. Eventually he will have to think about succession. One possible answer to succession and his aim to have some form of eventual retirement lies in the developing business relationship with Stour Gardening and Decking (SGD) Ltd owned by Rose Lilley and her husband Raphael, both Evergreen graduates. Rose is the daughter of his friend and Head of Faculty at Evergreen Horticultural College, Basil Grainger. SGD was a similar business to KWGC, but one which had more emphasis on non-plant sales, such as conservatories and garden stoneware. These were higher profit margin products and had a more even spread of demand. 20 25

John was a devoted plants man and had developed KWGC on the basis of strong technical skills, hard work and long hours, coupled with his own uncompromising leadership and driving passion for gardening. People tended to work for him for either a very short or a very long period of time. Certainly it was clear to all who worked with him what culture dominated his business. 30

Right from the very beginning, John had adopted a hands on approach and was very much a man who focused on detail. John had acquired substantial cash reserves through a policy of prudence which, added to an excellent trading record, including a higher than normal Return On Capital Employed (ROCE) of 47%, meant he could consider several options for funding growth. 35

One option would be to obtain finance from his bank, which would almost certainly be made available. Another option is for KWGC to become a plc and float shares to finance a substantial growth programme.

John is both a retailer and a producer of much of his products, growing on from seeds and propagation as well as importing exotic stock. Although the Channel Islands, the Isles of Scilly and the Netherlands had traditionally been sources of supply for him, in recent years he 40

had been able to source from Kenya, South Africa, Israel and parts of South America. Veldt Nurseries, one of John's principal South African suppliers of exotic plants, was willing to enter into negotiations to sell its business to John. Veldt Nurseries (see **Appendix 1**) owned a farm on which it grew the stock plants it sold. It also operated the farm as a tourist destination for holidaymakers who wanted a Gardeners' Safari. 45

KWGC is facing increasing competition from supermarkets for the simpler aspects of supplying flowers and plants, together with the lucrative sales of non-plant products. John knows that KWGC needs further growth in order to maintain profit margins by realising economies of scale. John has repositioned his business slightly to focus more on exotic plants from warmer climates which command higher profit margins, but which need more specialist advice and knowledge. 50

The small beginnings of KWGC now seem a long time ago, as do some of the problems John faced during the first few years. The cash-flow crisis in 2002, described in John's book, had almost brought the venture to a halt; managing the cash-flow in such a fluctuating business had taxed John's abilities as a young entrepreneur and manager. He was proud of the fact that he had survived without recourse to advice from his Bank Manager or other professionals. The same problems have reappeared with SGD, and Basil has asked John to act as a mentor to his daughter. 55

Rose and Raphael had run SGD successfully for five years. The freehold site they had acquired for £1.5 million is now valued at £5 million (see **Appendix 2**) and they are keen to undertake a similar investment. However, SGD has two current financial problems. 60

Problems had been caused by the unusually wet summer of 2009 and the effects of the "credit crunch" which had caused a slowdown in sales to customers looking to enhance their gardens. The Christmas goods for 2009 had not sold well and the early season 2010 products had been ordered. Naturally, the supplier's invoices were due and soon would be overdue. Raphael was aware that part of his ability to sell competitively was founded on good terms from his suppliers, whom he always paid promptly. The second problem is that regular breakdowns of the heating system for his own plants have brought about even more unwelcome expenditure in terms of repairs and alternative heating. John recalled feeling irritated when his suggestions about replacing the heating system had not been followed through. Rose and Raphael had wanted to discuss it further and seek Basil's opinion, which they explained was how they always did things and they felt it had always worked for them. 65 70

The possibility had occurred to John to merge with SGD and take a consultancy role in the combined businesses, but how would he adjust to having other people with an interest in "his" business? 75

John is planning to attend the next Board Meeting of SGD in his capacity as mentor to consider its options and recommend courses of action. Might this be the opportunity to broach the subject of combining their businesses and embark on a wider programme of growth?

John looked back to the pages of his book, would he have to add another chapter to describe how KWGC International Growers and Traders plc had germinated, grown and blossomed? 80

## Appendix 1

### Veldt Nurseries Financial Data

All figures in South African Currency – Rand (ZAR)	2006	2007	2008	2009
Turnover – Plants	54.6m	56m	58.8m	51.45m
Turnover Gardeners' Safari's	2.80m	3.64m	5.18m	4.55m
Overall ROCE	30%	31%	32%	28%

Data: The Rand (ZAR) had strengthened against the £ from around 17.6 ZAR/£ in October 2008 to 14 ZAR/£ in April 2009 when this data was provided by Veldt Nurseries. The guide price for sale negotiations had been 77m ZAR.

## Appendix 2

### Extract from the Accounts of Stour Gardening and Decking (SGD) Ltd. Balance Sheet as at 31 December 2009

	£	£
<b><u>Fixed Assets</u></b>		
Land and buildings		1 500 000
Machinery		25 000
<b><u>Current Assets</u></b>		
Stock – WIP	26 000	
– Saleable products	60 000	
Cash	100	
Debtors	60	
<b><u>Current Liabilities</u></b>		
Overdraft	1 160	
Creditors	47 000	
Working capital		38 000
<b><u>Net worth</u></b>		<b><u>1 563 000</u></b>
<b><u>Capital Structure</u></b>		
1 000 000 shares @ £1		1 000 000
Loans		555 000
Reserves		8 000
<b><u>Total</u></b>		<b><u>1 563 000</u></b>
Net profit after tax 2009 = £649 999 (41.59% ROCE) based on sales of £1 857 140		