



A-level BUSINESS

Paper 3 Business 3

Sample assessment materials

Insert

Source A: Finlay's Farm Ltd.

Source B: Farmoor Cycles

Version 1.1

Source A: Finlay's Farm Ltd

Finlay's Farm Ltd is a small family-owned farm in Scotland. It has a herd of 130 cows, and their milk is used to make:

- Cheese. This is sold both online and through various retail stores.
- Ice cream. This is sold through retailers.

The company's founders are David and Wilma Finlay. They have built strong long-term relationships with its customers. There are two other employees. The dairy industry has been restructuring in recent years with bigger farms buying up smaller ones.

The company:

- has high gearing but has also used crowdfunding to raise finance
- receives government agricultural grants and subsidies
- exports some of its products; although since the UK left the European Union exporting regulations have been complex.

The farm is organic. Organic farming aims to ensure that it uses processes that do not harm the environment, plant health or animal welfare. This is important to David and Wilma and its other employees. For example, the cows are fed an organic and natural diet as opposed to animal feed which has been genetically modified. The company aims to reduce energy use and greenhouse emissions and reduce the use of chemicals in farming as much as it can, even if this impacts on productivity. David and Wilma have been asked to speak at a number of environmental events and have been awarded an Outstanding Achievement award for their environmentally friendly practices.

The company has a good brand image and charges a premium price for its products. Its customers value its niche position in the market. It is said to be operating close to capacity. To increase scale, it would need to buy more cows and invest in new production facilities.

The farm has a small visitor centre which:

- sells its products
- offers food workshops such as ice cream making
- organises visits for people who want to know more about organic farming and look around the farm.

Analysts say the key risks facing the company are:

- changes in market conditions if customers become more price sensitive
- the retirement of the founders
- IT issues with its online sales business such as data theft.

One possible growth option for the business is to open a glamping campsite.

Source: Information sourced from Finlay's Farm Ltd

SOURCE A CONTINUES ON THE NEXT PAGE

Appendix A: Glamping.

Glamping is a form of camping for those who want more luxury than a traditional outdoor camping experience. It involves outdoor accommodation such as yurts, treehouses or eco-lodges (environmentally friendly huts). Glamping usually involves proper beds, electricity, private bathrooms and kitchen areas.

- The UK glamping market had sales of approximately £350 million in 2023. It has been growing at an annual rate of around 12–15% in recent years.
- Demand tends to be seasonal. Peak season: May to September.
- Many glamping sites emphasise eco-friendly practices and sustainable tourism. They are often independently owned.

Appendix B: Forecast (fictional) financial data for the first year if Finlay's Farm Ltd decides to set up a glamping site.

Capacity	8 eco-lodges
Forecast sales in first year	120 rental weeks of eco-lodges
Forecast profit in first year	£36 000
Initial investment	£90 000
Target profit for first year	£38 000

TURN OVER FOR SOURCE B

Source B: Farmoor Cycles

Farmoor Cycles is an independent bicycle retailer in the UK. It was established in Oxford in 2002 as a worker cooperative by a group of cycling enthusiasts. It now has two other shops in Birmingham and Manchester. The UK bicycle retail sector has a few large national chains that sell bikes, such as Halfords, Decathlon and Argos, as well as many small independent businesses. The entry threat to the industry is high.

The mission of Farmoor Cycles is to:

- provide affordable bicycles for cyclists of all kinds
- promote the benefits of cycling for cyclists of all kinds
- build a fairer society through cooperative ownership.

The business states that 'we have the passion, specialist expertise and links with the local community that customers want'.

It values:

- democracy
- honesty
- openness
- social responsibility
- caring for others.

The business is considering investing in a new inventory management system (Appendix C) which has a forecast life span of 4 years. It usually aims for an average rate of return on its investments of at least 10%. The current rate of interest for taking out a bank loan is 8%.

Appendix C: Investment in a new inventory management system.

Year	Net inflows £000
0	(50)
1	(20)
2	20
3	40
4	50

Source: based on calculations of Farmoor Cycles' Operations Manager
using data provided by the supplier of the equipment

SOURCE B CONTINUES ON THE NEXT PAGE

Appendix D: Farmoor Cycles' data.

	2023	2024
Revenue	£1 904 000	£1 880 000
Marketing spending (percentage of revenue)	5%	4%
Number of employees	30	32
Employee costs as percentage of revenue	25%	27%
Operating profit margins	3%	2%
Cashflow	£125 000	(£5 000)
Average spending per employee on training	£2 000	£750
Average time for customers to pay	6 months	6 months
Average payment time to suppliers	4 weeks	3 weeks

Appendix E: Farmoor Cycles' product information.

Category of bike	Proportion of inventory held in Farmoor Cycles' shops	Forecast average annual UK sales growth rate 2025–2028
Road	55%	-0.1%
Mountain	30%	2%
E bikes	15%	8%

Appendix F: Farmoor Cycles' marketing data.

	2024
Online sales as percentage of total sales	15%
Store sales as a percentage of total sales	85%
Spending on digital marketing as a percentage of revenue	2%
Average cost per click-through from digital adverts to website	£7.80
Index of customer service rating (base year 2022=100)	82

SOURCE B CONTINUES ON THE NEXT PAGE

Appendix G: UK bicycle retail industry data.

	2024
Annual growth of the UK bicycle retail market	3%
Industry average marketing spending as percentage of revenue	10%
Industry average employee costs as percentage of revenue	18%
Operating profit margins	6%
Online sales as percentage of revenue	40%
Spending on digital marketing as a percentage of revenue	4%
Average cost per click through from digital adverts to website	£2.50
Forecast annual growth in store sales (2024–2027)	2%
Forecast annual growth in digital sales (2024–2027)	12%
Receivables days	90 days
Payables days	30 days

END OF SOURCES

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Source B is a fictional business.