

**ADVANCED SUBSIDIARY GCE
BUSINESS STUDIES**

Business Behaviour

CASE STUDY

JUNE 2008

To be opened on receipt

2873/CS



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This document consists of **8** printed pages.

CONTOURS LANDSCAPING & NURSERIES Ltd (CLN)

With over 25 years experience Contours Landscaping & Nurseries Ltd (CLN) is recognised for its outstanding award-winning achievements as a UK-based landscaper serving Somerset and the surrounding area. It specialises in both soft and hard landscaping, as well as landscape construction and the maintenance of business parks, superstores, hospitals and public parks. CLN offers a full in-house landscape service from project inception through to completion. CLN's turnover last year reached a record level. 5

CLN employs a permanent staff of 28 from its base in Taunton, including a five-strong senior management team, led by Paul Hudson. Paul originally trained as a farmer until he began doing some small-time landscape contract work, which soon grew into the business he now co-owns with his wife, Katy. Some of the senior management team are candidates to take over from Paul Hudson when he retires. Many of the staff have been with CLN since leaving school. Last year, CLN's profit was half of what it was regularly making less than five years ago. Most of last year's profit was used for re-investment to maintain buildings and equipment. 10

Landscaping is a labour intensive activity, which is one reason why more than half of CLN's turnover last year was spent on wages and salaries. During the busiest times of the year, casual staff also have to be employed. All staff, excluding the management team, are paid on a day rate, with extra hours worked meaning extra pay. Most staff are at work by 6.30 a.m. and may not finish until 6.30 p.m. depending on the job, so overtime has to be paid. In fact, overtime accounts for more than 30% of the wage bill. This led to Paul arranging a meeting with an independent business consultant, at the end of 2007, to talk about the overtime issue and the general state of CLN's cash flow position (see Appendix 1). 15

"You need to find a way of working so that the staff get the same income but in a far more costed and accountable way," suggested the consultant. "A more disciplined approach to overtime needs to be taken." 20

"We do allow for overtime when costing jobs, but due to the nature of the work it is very difficult to make predictions with any degree of certainty. We can't change employment conditions without agreement, so there has to be overtime," replied Paul. 25

"You are beginning to suffer for your success," said the consultant. "As you have developed into a medium-sized business, many of the ways you work have stayed rooted in a small business mentality. You need to look at your business structure. You should take a blank sheet of paper and draw up an ideal business structure as if it were a new venture." 30

At present, about 70% of CLN's income from landscaping is generated by commercial contracts. The remainder comes from private jobs, such as planning and planting household gardens. The private work is critical to help cash flow in an industry which is notorious for its late payment problems. However, it is the commercial contracts which have always provided the bedrock of business for CLN. 35

A relatively new venture which has already proved popular has been a mail-order plant delivery service. Using stock from its established nursery, which was set up 12 years ago to supply plants for its landscaping work, CLN posts four catalogues a year to its growing database of customers. It has recently begun taking orders via its website, where orders tend to be larger. For example, the website accounts for 20% of annual orders but 32% of plant sales turnover. However, there are no plans to move completely to e-commerce due to the age profile of plant-buying customers. Mail-order is another very labour intensive process and CLN is finding that it is having to employ increased numbers of casual staff in the weeks following the distribution of a new catalogue. 40

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Jonathan Schick is CLN's General Manager. He has just finished producing a report for senior managers in which he considers how CLN's market has changed in the last 10 or so years and how it is forecast to change in the future. He has highlighted the significant external and internal factors affecting the business and the industry it is in. An excerpt from this report can be found in Appendix 2. Jonathan has already shown his preliminary findings to Paul Hudson and they have talked briefly about how any changes in CLN's different market shares will affect the future development of the company. 50

Another one of the senior management team who is looking to the future is Holly Culver, the Personnel Manager. Holly's role is to oversee the welfare of the staff (see Appendix 3), deal with wages, IT and updating of the website. As a result of Paul Hudson's meeting with the management consultant last year, Holly has been put in charge of identifying how CLN can address the issues associated with the overtime problems. Paul's instructions were straightforward and to the point. "This is a good business with good customers and great staff but we can't carry on with uncontrolled overtime. We need to restructure. The question is, how?" 55

Ensuring that all staff are aware of the profitability of each job is one way that Holly has already identified as a way forward. This will require big changes: culture, attitude, pay structures and even working hours. She is also considering flexible working schemes, salaries with profit-sharing bonuses and even spreading the ownership of the company in an attempt to make pay scales better reflect profits. With flexible working, staff would be contracted for so many hours a month or year, which they would work when needed. It is an approach increasingly being adopted as it benefits both employer and employee. With a profit-based bonus added in, staff are also focused on the overall performance of the business. However, having done much research on the Internet, downloading documents produced by the government and other business advisory organisations, Holly is conscious that introducing flexible working is a huge undertaking and must be done in the right way. She is still unsure of the overall impact on CLN. 60
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CLN's success in the landscaping market has been built on its reputation for producing a quality product which is well designed and specific to a client's needs. CLN's own promotional leaflet states that 'Every project is unique; we therefore treat every design independently in order that the full design potential within each space is reached.' Paul Hudson is surprised and disappointed that he has seen an increase in customer complaints in the last six months and is currently having to deal with complaints from two large and very different clients. 75

The first of these is a builder which employed CLN to landscape the land around and within a large industrial estate built on the outskirts of a local town. The contract had been pretty vague about specifics, other than being low maintenance and containing some grassed areas. The builder was now passing on complaints from the businesses in the industrial units about trees blocking out natural light from the windows and there not being enough grassy banks for workers to sit on during their lunch and drink breaks. 80

The second complaint was from a private householder who had employed CLN to completely redesign and landscape a very large garden. The customer, Dr. Tennant, was refusing to settle his account with CLN until he was happy with the finished garden. Paul had decided to visit the client to discuss his concerns and was now sitting in the garden with Dr. Tennant and could already see some of the problems for himself. 85

Dr. Tennant began to go through his list of complaints. "First, you can see the grassed area is unevenly laid. There are gaps between the turfs and they do not always come flush against the patio. The grass itself is not of the right type. It says 'fine mix grass' on the plans and this looks more like a roadside verge. Second, the patio has been put down on a dry mix and some of the slabs are already starting to look uneven. The plans that I agreed said it was to be laid on a wet cement mix but when I mentioned this to one of your workers he said that he always used a dry mix." 90

Paul tried to defend this point. "Yes, we usually find a dry mix is perfectly adequate." 95

"That may well be, but I had discussed this with your designer and explained that this part of the garden was always particularly wet, due to an underground spring. He agreed to improve the drainage and then construct a more stable base for the patio," replied Dr. Tennant. He went on, "Another thing is the trees."

Paul looked around the garden and thought the trees looked young and healthy. "They seem fine to me," said Paul. 100

"They may look fine," said Dr. Tennant, picking up the plan and showing it to Paul. "And in fact they are very high quality trees. It's just that they are not all the correct species and some are not where they are shown on the plan."

As he continued to go through the list of grievances, Paul thought that most of Dr. Tennant's complaints were valid. There were no problems with the plans and what had been agreed with the client; it was the actual implementation of the plans. Paul could also see similarities with the problems at the industrial estate. He needed to find a way of ensuring that the quality of CLN's work was better monitored. 105

Appendix 1 – CLN'S Cash Flow 2007–08

	Actual figures (£'000)												Forecast figures (£'000)			
	Jul 07	Aug 07	Sep 07	Oct 07	Nov 07	Dec 07	Jan 08	Feb 08	Mar 08	Apr 08	May 08	Jun 08	Jul 08	Aug 08	Sep 08	Oct 08
Opening bank balance	10	4	16	41	9	53	42	28	-3	-43	-59					
Inflows																
Sales turnover ⁽¹⁾	189	198	175	161	152	89	71	69	70	100	150					
Outflows																
Materials ⁽²⁾	39	44	51	41	38	38	22	19	16	18	25					
Labour costs	118	112	90	81	56	54	55	52	75	90	105					
Utilities & business rates	5	5	6	5	5	6	7	7	6	5	5					
Marketing costs	1	2	2	1	1	0	0	1	1	1	1					
Administrative & miscellaneous expenses	2	2	1	2	3	2	1	1	2	2	2					
New equipment		21		63					10							
Maintenance of buildings, etc.	30				5			20								
Total outflows	195	186	150	193	108	100	85	100	110	116	138					
Net cash flow for month	-6	12	25	-32	44	-11	-14	-31	-40	-16	12					
Closing bank balance	4	16	41	9	53	42	28	-3	-43	-59	-47					

(1) Payment terms on sales – Commercial customers 60 days, Private households 30 days. 10% deposit paid on all orders

(2) Payment terms on purchases – some items 30 days and others cash on delivery

Appendix 2 – Excerpt from Jonathan Schick’s Marketing report

What are our strengths?

- Well proven success in the area of designing and negotiating with local councils regarding planning permission and site development, gaining the trust of many council planning officers in the area.
- Offering a range of different design services from a basic outline plan to 3D rendered drawings, using computer generated images which give a photographic impression of the future garden.
- Design is seen as an integral part of our full landscape service. Our designer is fully trained, with a degree in Landscape and Garden Design.
- Won many awards from different organisations, including:
 - Design and Enhancement of the Environment Award 2005
 - Council for the Protection of Rural England Special Award 2006
 - RHS Silver Gilt Medal at Chelsea Flower Show 2006 & 2007.

Challenges facing us at present and in the future.

- A significant reduction in government spending (on landscaping in particular).
- Large reductions in Highways Agency work.
- New government ‘Best Value Contracts Scheme’ where a quality submission is demanded prior to the acceptance of a full tender.
- A slight resurgence in the house building sector, although this is not highly profitable.
- A growing market in large private work. This can be very profitable but means dealing with increasingly knowledgeable customers who demand very high standards, needing diplomatic, highly presentable and well trained staff.
- Increased demand for our plant supplies part of the business, with particular growth from e-commerce which places additional demands on already busy staff.
- Published independent research has shown that a third of garden centres are in danger of financial ruin and half are struggling to break even. This is blamed on changing weather patterns, particularly cold, late springs in recent years and hot summers with droughts in some parts of the country.
- The modern trend sees all sorts of firms, from garages to supermarkets and DIY chains, selling horticultural products.

CLN’s Estimated Market Share in its geographic area (by sales revenue)

	2000	2003	2006	2009*	2012*
Commercial sector work	8%	10%	9%	7%	7%
Private household work	2%	5%	6%	8%	10%
Plant supplies via mail-order & e-commerce (national market share)	n/a	n/a	0.1%	0.2%	0.5%

*Forecast data

Appendix 3 – CLN’s Permanent Workforce

Name	Age	Years of Service	Job Title	Other relevant details
Paul Hudson	63	27	Managing Director	Looking to retire within five years
Jonathan Schick	42	16	General Manager	Oversees the day-to-day running of the business
Holly Culver	31	4	Personnel Manager	Recently passed her NVQ Level 3 in Administration
Vicky Miner	52	27	Finance Manager	Accounts, pricing contracts, credit control and day-to-day running of the office
Sarah Cutchley	48	13	Company Secretary	Deals with customers & edits quotations
Len Giles	44	22	Landscape Designer	Promoted from Assistant Designer 6 months ago
Heidi George	28	<1	Assistant Designer	Has previously won Silver and Bronze medals for two gardens at Chelsea Flower Show
Chas Pulford	30	3	Ecological Adviser	Provides advice on wildlife friendly gardens for the design team
Peter Fidler	38	22	Nursery Manager	Became manager of the nursery when it was set up 12 years ago
Sue Perks	27	10	Asst. Nursery Manager	
Emlyn Jenkins	29	3	Nursery Worker	
Jane Jex	21	2	Nursery Worker	
Yurmin Lu	26	4	Admin. Assistant	Helps Vicky & Sarah with general administrative duties, including posting catalogues
James Faulkner	54	23	Team Leader	Just become a father for the first time
Nicola Wood	31	11	Team Leader	
Ebryl Nicholls	36	5	Team Leader	Promoted to a Team Leader last year
Gareth Davies	36	20	Landscaping worker	
Sylvia Williams	38	19	Landscaping worker	Has recently returned from maternity leave
Steven Welton	17	<1	Landscaping worker	
Bernice Wong	20	3	Landscaping worker	
John Blessed	18	1	Landscaping worker	
Jane Hill	44	25	Landscaping worker	She is sole carer for her elderly mother living in Devon
Claudia Jacobi	22	<1	Landscaping worker	
Ocean Li	25	2	Landscaping worker	
Sheila White	39	21	Landscaping worker	Has a disabled 8-year old son
Jack Pullman	53	12	Landscaping worker	
George Baker	58	27	Landscaping worker	
Brian Hurt	40	24	Landscaping worker	

Paul, Jonathan, Holly, Vicky and Sarah make up the senior management team

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