

OXFORD CAMBRIDGE AND RSA EXAMINATIONS

Advanced GCE

BUSINESS STUDIES

Business Strategy

CASE STUDY

JUNE 2003

2880/CS

May be opened and given to candidates upon receipt.

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This copy may **not** be taken into the examination room.

The business described in this case study is entirely fictitious.

This question paper consists of 5 printed pages and 3 blank pages.

Cutting and Taylor (Garden Centre) Ltd

Cutting and Taylor (Garden Centre) Ltd (C & T) is the legal identity of Lower Orton Garden Centre. Established in 1948 as a plant nursery it has since grown into a business with a turnover of about £2.2m in 2002. Kevin Cutting, the founder's grandson, is Managing Director; his mother, Isabella, is Chair of the Board. Ownership of the company is held entirely within the Cutting family, the Taylors having been bought out in 1962. 5

The nature of the garden centre industry is seasonal. Traditionally, the spring bank holiday weekend is the busiest time of the year. Other periods of high demand are when bedding plants are being bought and in the run up to Christmas when gift sales are significant. Other than these specific peaks, demand tends to rise in the spring and summer and decline in autumn and winter. Although weather does tend to influence sales on a daily basis it is not a major factor over a period of a few weeks. Customer numbers tend to be higher at weekends. During the week the typical customer is non-economically active, a gardening enthusiast who will visit C & T with a specific purchase in mind. This focus, however, does not stop them wandering throughout the garden centre looking at stock. In contrast, weekend customers are typically younger, less knowledgeable and far more willing to engage in impulse purchases. These customers are more readily influenced by media and point-of-sale material than the experienced gardener. Their approach is increasingly to purchase large, mature plants that will not require years of nurturing to reach their full potential. Being mainly from socio-economic groups A, B and C1 Kevin describes them as 'cash rich, time poor'. Over the last three years Kevin has noticed a steady shift in C & T's customer base toward the inexperienced end of the scale. The variable pattern of sales, both weekly and annually, causes a number of problems for C & T. These centre on cash flow, stock and employment levels. 10
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Lower Orton Garden Centre employs 34-full time equivalent staff. Of these 24 are full time, four being qualified horticulturalists with a National Diploma in Horticulture, NDH. A fifth full-time member of staff is currently working toward this qualification. At any one time at least one horticulturalist will be on duty and accessible to customers. Finding and retaining good staff is an issue. The industry has a relatively unattractive image, with poor pay, long and unsociable hours, and unpleasant working conditions. It is Kevin's view that many of the qualities required to be a good horticulturalist militate against being good at adopting a customer focus. It is only since becoming a manager that Kevin has fully understood one of his grandfather's favourite expressions: 'Plant people are not always people people'. Despite these issues C & T enjoys a good reputation for having knowledgeable staff. Staffing levels can be adjusted at busy times by using a greater proportion of part time staff. 30
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The company owns the site from which it operates. The company's bankers have made it clear that they would be willing to advance capital given this potential security. The site is split into four main sections. The largest is the area dedicated to rearing plants, such as pansies and geraniums. C & T buy in its stock of shrubs, trees and exotic plants. The second section is the selling area. This comprises six large sheds and an outdoor display area. (One shed houses garden tools and equipment, and another gifts, while the remaining four are used to display plants.) The third section is a restaurant, while the fourth section is the car park. 40
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The restaurant was opened six years ago. Operated as an autonomous profit centre, it is now regarded as an essential part of the C & T product portfolio, see Table 1. Each quarter Kevin holds a meeting to discuss financial targets and so

allocate resources. From these meetings Kevin is increasingly aware that some restaurant customers do not buy anything other than their refreshments when they visit C & T. Consequently, whilst customer numbers might rise at busy periods some do not arrive with the intention of buying plants. Although he has no hard evidence, he suspects that for some customers C & T is an entertainment destination rather than a garden centre. This view is supported by some non-restaurant staff, some of whom feel that the presence of these customers devalues the integrity of the garden centre as a serious horticultural proposition. Kevin is rather unsure whether this is an issue. On the one hand he is glad that the restaurant yields income. However, on the other he feels the traffic generated by restaurant visits should be leading to more sales income, especially of non-restaurant purchases. He thinks it should be easier to gain sales from existing customers than to gain sales by attracting more customers. Such an approach would lessen the car park capacity problems that C & T experiences at weekends. At the moment C & T does not advertise because an analysis three years ago suggested it was not cost effective.

Table 1. Profit centre performance, £'000s

	Plants	Gifts	Equipment	Restaurant	Total
Sales	744	516	388	558	2,206
Gross profit	371	310	261	419	1,361
Net profit	104	43	(7)	152	292

As Managing Director, Kevin's attention is frequently focused on the long-term success of the business. He believes his role is to support his staff in the day-to-day operations, allowing them to decide on stock levels, display and staff rotas. His role is to explore how C & T can continue to grow as a business so as to provide an acceptable income for its various stakeholders. Historically sales have grown steadily, with a noticeable upturn in growth in the last five years. Kevin attributes this to increased media exposure of gardening and garden design. Profits have also grown, but at a slower rate over this same period. Arresting the decline in the profitability of the business is one of Kevin's key concerns.

The rise in the popularity of garden design has caused Kevin to consider diversifying such that C & T can offer customers a complete range of products for the garden. For example, at the moment C & T only sells small bags of gravel, a few timber stakes and other materials such as timber preservatives. Customer enquiries about decking and sheds, for example, have to be turned away. Through his business contacts Kevin is aware that the town's builders' merchant is about to come onto the market because the owner is retiring. The general view amongst Kevin's business contacts is that the owner has lost interest. Consequently, it is now not particularly successful. The commercial estate agent has provided Kevin with some brief background notes about the builders' merchant (see Appendix 1). Kevin believes the synergistic benefits of such a purchase are clear.

The garden centre industry is becoming increasingly concentrated. Small independent operators are being squeezed by a combination of multiple centres, such as Wyevale, and out of town DIY superstores, such as B & Q. Kevin believes C & T has clear competitive advantages with regard to choice and quality. However, he is less confident about the business' ability to match the larger companies when it comes to marketing. Joining a regional group of independent garden centres has, to a limited extent, offset some of the cost disadvantages of being considerably

smaller. There are nonetheless other areas in which C & T could not expect to be competitive. This is one reason that the diversification offered by buying a builders' merchant seems attractive.

Kevin is considering two other options for C & T to pursue, both of which have a common root in landscaping. The first is to contract with house builders to undertake the initial garden design and landscaping for their new developments. Each contract would be for a fixed price and would cover such issues as design, layout and the landscaping of individual gardens. The other option is to build upon C & T's good reputation and offer a garden design and maintenance service in the locality. To begin with, Kevin has attempted a SWOT analysis, see Figure 1. Kevin can foresee few problems in competing successfully with established firms given C & T's strengths.

Figure 1

**SWOT analysis of C & T
(Garden design and maintenance)**

Strengths	Weaknesses
C & T's local reputation as a garden centre Horticultural expertise Could source plants at low cost	Scarcity of resources: capital and manpower Divert management attention Unable to protect design ideas
Opportunities	Threats
Competition fragmented; several sole traders Low barriers to entry/exit and sunk costs Market growing in size	Established competition Market income sensitive

The direction in which he should take C & T is a decision that will need very careful thought. Although organic growth continues to be an option, Kevin feels that if the company is to be successful, C & T should seek external growth. With the exception of an intermittent overdraft, C & T has no debt and could readily borrow, using the site as collateral, if necessary (see Appendix 2). He is mindful that as Managing Director he is custodian of the business and he cannot afford to make an incorrect choice.

Appendix 1

Outline details (without prejudice) of

Business: Miner's Building Supplies Ltd
 Location: Station Road, Upper Orton
 Site value: £350,000 (with current planning permissions; commercial)
 2002 Turnover: £218,000
 Staff: 12

Offers in the region of £850,000
 To be sold as a going concern

Appendix 2

Cutting and Taylor (Garden Centre) Ltd
Balance Sheets as at end of financial year

	2002 £000s	2001 £000s
Fixed assets		
Tangible assets	<u>565</u>	<u>523</u>
Current assets		
Stock	234	190
Debtors	63	33
Cash	<u>598</u>	<u>584</u>
	895	807
Current liabilities		
Creditors	290	335
Net Current assets	605	472
Net assets employed	<u>1,170</u>	<u>995</u>
Share capital	200	200
Profit and loss account	970	795
Capital employed	<u>1,170</u>	<u>995</u>

