



Oxford Cambridge and RSA

Wednesday 25 May 2022 – Afternoon

A Level Business

H431/01 Operating in a local business environment

Resource Booklet

Time allowed: 2 hours



INSTRUCTIONS

- Use this Resource Booklet to answer the questions in **Section B**.
- Do **not** send this Resource Booklet for marking. Keep it in the centre or recycle it.

INFORMATION

- The business described in this Resource Booklet is a **real** business.
- This document has **4** pages.

Leo Donaldson Estate Agents (LDEA)

At the age of 28, Leo Donaldson, who had previously worked in estate agents for 10 years, established Leo Donaldson Estate Agents (LDEA) in 1999. An estate agent mainly sells properties on behalf of their owners. However, LDEA also manages the renting out of properties for their owners. LDEA is a private limited company, with Leo and his wife Emma as the only shareholders.

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When Leo started LDEA he faced a lot of uncertainty. This has not changed, even though the business is 23 years old. LDEA has just one branch, located near Bristol. The local area is dominated by national chains of estate agents. In recent years, online estate agents, such as Purplebricks and Zoopla, have also entered the local market. LDEA is one of a few independent estate agents, usually with just one branch.

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LDEA focuses on selling and managing the renting of domestic properties up to £800 000 in value. The management of rented properties is currently about 5% of LDEA's turnover, but this is something Leo would like to see grow. His strategic objective is for LDEA to achieve a net profit of £90 000 for each of the next two years. LDEA has about £30 000 outstanding on a bank loan.

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LDEA's employees are paid a salary, plus a commission when a property is sold or rented. The fee charged by LDEA for selling a property is usually 1.5% of the price. The employee making the sale gets 5% commission of the selling fee. Employees are paid a fixed commission of £150 for arranging a rental.

Leo sees his staff as crucial to reaching LDEA's objective. "We are people based; there is an expectation that we know all about local matters, such as the quality of schools and the location of medical centres. Customers like having a specific agent to talk to and word gets around that we get the job done."

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Leo looks for several qualities in his employees – enthusiasm, customer service skills, and "someone who wants a career in estate agency, rather than it being just a job". As well as Leo, there are 10 employees including his Deputy Manager, Anika. Three of the employees report directly to Leo and the other six report to Anika. Leo has recently lost several talented employees to competitors, as there is limited scope for promotion at LDEA.

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Leo is considering three ways to improve employee retention:

- Create a new post of Senior Sales Associate, recruited internally. They would be managed by Anika and take over some of Leo's and Anika's duties. Leo thinks this would be personally beneficial; success has come at the cost of working very long hours and Anika has been requesting more support for some time.
- Introduce a bonus system based on an employee's contribution to LDEA. This would be in addition to any commission paid.
- Increase the commission on a sale to 10% of the selling fee.

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The business has a strong presence on social media. This highlights activities such as the sponsorship of a local football team and support for various national charities.

As well as existing properties, LDEA is active in marketing 'new house builds'. There are a number of new housing estates already being built in the Bristol area and others are planned. Leo regards new builds as an opportunity to expand his business.

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Demand for estate agency services varies according to the season. "December is very slow with everyone thinking about Christmas", Leo says. "But things improve in January with people looking to make a new start. The state of the local economy and interest rates also affect us."

Cash-flow can be a problem and Leo carefully monitors projected income. He is very thorough with his planning and is constantly revising LDEA's tactical objectives. "I don't want the business to just drift along", he says. On average, the business sells 35 properties a week. As part of his planning, Leo tries to forecast LDEA's property sales as accurately as possible. This involves using time series analysis. 45

Leo recently met an old friend, Tom Carroll. He is the owner of another independent single branch estate agency, called 'Carrolls'. It specialises in lower-priced houses than LDEA. Tom intends to retire soon; he has been in the industry for over 44 years and wants to spend more time with his grandchildren. He wants a quick sale of his business. 50

Leo has heard a different explanation. In 2021, Tom suffered a lengthy illness and during his absence the business declined and has steadily been losing sales and employees. If this is true, Leo wondered who would want to buy the business once they had seen its accounts. Leo then had a different thought. Perhaps he should buy it himself. He found Carrolls' advertisement on a website dedicated to the sale of businesses in the Bristol area. An extract from the advertisement is shown below. 55

Estate Agency For Sale

- Strong reputation as a high-quality estate agent for over 15 years
- Considerable potential for growth of the business
- Specialists in managing the renting of residential property
- Experienced and dedicated team of employees
- Operates from leased premises in an accessible location
- For sale due to retirement of the current owner
- Net profit in 2021 of £75 000

Asking Price of £200 000

Carrolls is situated about three miles south of LDEA's branch. Leo is wondering whether Tom's wish for a quick sale means he would be willing to accept a considerably lower offer than the asking price. 60 65 70

NB: LDEA is a real business. However, to protect sensitive information, the name of the business and its owner has been changed.

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