GCSE

C510U20-1A

S24-C510U20-1A

WEDNESDAY, 5 JUNE 2024 – AFTERNOON

BUSINESS – Component 2
Business Considerations

Resource Material

C510U201A
01

1. Taylors of Harrogate, is a tea and coffee business established in 1886 in Yorkshire, UK. A successful and major brand of the business is Yorkshire Tea.

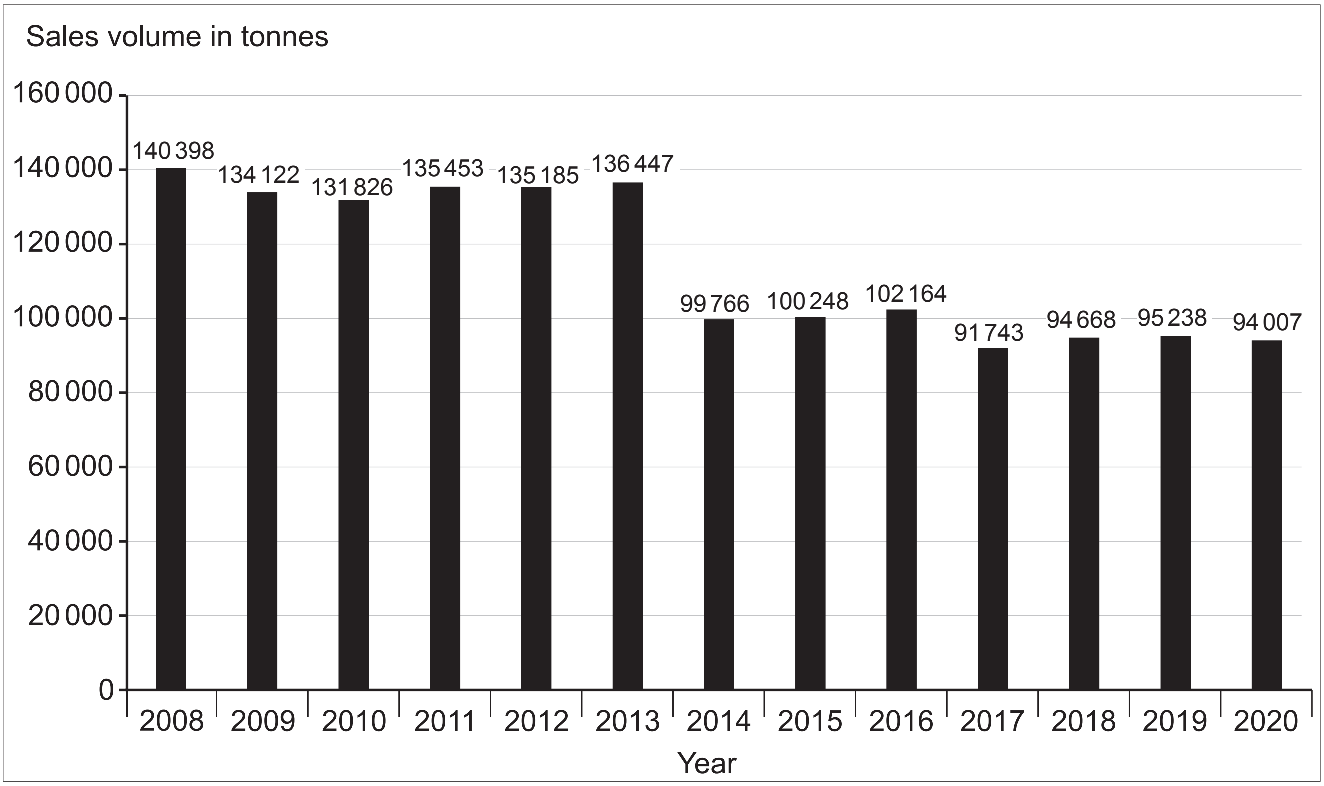
Yorkshire Tea is a traditional tea, the type that most tea drinkers in the UK drink. In the UK, Yorkshire Tea has become one of the most popular tea brands and is exported to over 20 countries across the world.

Tea is big business in the UK:

- British people consume 100 million cups of tea per day, that's 36 billion cups of tea per year.
- The UK population is the biggest consumer of traditional tea in Europe.
- New fruit and herbal infusion teas are becoming more popular with younger consumers.
- Tea drinkers in the UK are very loyal to their chosen brand.

Despite the popularity of tea in the UK, the traditional tea market is in long-term decline.

Figure 1 – UK sales volume in tonnes of traditional tea 2008 to 2020



Yorkshire Tea faces fierce competition from other leading brands such as Twinings, Tetley and PG Tips. In addition, new brands such as Pukka have entered the market, selling a different type of tea, including fruit, green and herbal teas, to meet the needs and wants of younger consumers. These new types of tea are becoming very popular with consumers.

Yorkshire Tea has a reputation for high quality tea. The tea leaves used to make Yorkshire Tea are grown in China, India, Sri Lanka and Kenya. The tea leaves are picked from the fields by hand to preserve quality, damaged leaves are thrown away. The tea leaves are shipped thousands of miles to reach the factory in Yorkshire to be blended to achieve the perfect Yorkshire Tea taste. At its Yorkshire factory, a team of dedicated staff taste up to a thousand teas a day to achieve the perfect blend, the tea is then packaged for storage. Tea is distributed to wholesalers and supermarkets in the UK. Taylors of Harrogate also uses 36 different overseas distributors to manage sales across the world.

Yorkshire Tea uses batch production in its factory to produce the tea, it sells the following range of tea bags in its product portfolio:

- Consumers can choose to buy tea in different quantities, ranging from a box of 40 tea bags to a bulk bag of 1040.
- Leaf tea (without the tea bag) for customers who prefer to use the traditional method of making tea in a teapot and using a tea strainer.
- Different versions of Yorkshire Tea including Decaf, Hard Water, Gold, Breakfast.
- New speciality tea flavours include Bedtime, Toast and Jam and Biscuit.

Taylors of Harrogate aims to have a positive ethical impact when producing Yorkshire Tea. It sees its suppliers as one of its most important stakeholders and is committed to strong, long-term, ethical relationships.

The business has committed to the following standards when working with its global suppliers:

- Working conditions are safe
- No child labour is used
- Working hours are not excessive
- Living wages are paid.

C510U201A
03

2. Bubbles Ltd is a UK based, nationwide supplier of hot tubs. The business was established in 2008 by Barry Wall. Barry started the business as a sole trader. He began by buying inflatable hot tubs from manufacturers outside the UK such as China, then repackaging them with his own logo and selling the hot tubs on third-party selling websites such as Amazon and eBay. Barry started the business from his home storing the inflatable hot tubs in his garage.

The inflatable hot tubs are sent to customers with a pump so customers can easily assemble them. Barry had excellent feedback from customers about the quality of the hot tubs, the clear instructions and the after sales service. The price of the inflatable hot tubs sold by Barry ranges between £300 and £500.

Since Barry started the business there has been a big increase in demand for hot tubs.

Due to increasing sales, in 2015 Barry decided to expand the business. Barry was finding it difficult to keep up with demand. There was also not enough space in the garage to store the increased quantity of hot tubs. Barry decided to invest in a small warehouse and distribution centre in an industrial park. In the same year, Barry decided to change the ownership of the business into a private limited company to become Bubbles Ltd. Barry could no longer do all the work himself and he employed four staff to help in the warehouse and distribution centre. He also decided to set up his own e-commerce website for the business.

After continued growth in sales and profit, Barry is now considering expanding Bubbles Ltd further by selling more expensive plumbed-in hot tubs as well as continuing to sell his popular range of inflatable hot tubs.

If Barry decides to go ahead with the expansion of the business, he will source the plumbed-in hot tubs from a UK supplier. The plumbed-in hot tubs are very big and expensive so he intends to store a limited number of them in his warehouse and distribution centre. By not having an expensive showroom where people can see the plumbed-in hot tubs Barry thinks he will be able to sell the hot tubs at more competitive prices. However, he is concerned about delays in delivery from the UK supplier to his warehouse and distribution centre resulting in a long delivery time to the customer.

Barry will have to employ specialist staff to fit the plumbed-in hot tubs. He will also have to invest in a large van.

Barry carried out primary and secondary market research to help him make a decision. Barry spent an evening using the internet to carry out some research and found that:

- According to an article in 2019, the UK hot tub market is due to grow by 9.6% between 2021 and 2026.
- A rise in disposable income and awareness about health are factors that have led to growth in the hot tub market in the USA.
- Rising energy bills could contribute to increased costs for hot tub owners.
- The average price to customers of purchasing a plumbed-in hot tub including installation is £6000.

Barry also carried out primary market research by creating an online survey for his existing customers. 50 customers responded and the results showed that:

- 20% of customers said they would consider purchasing a plumbed-in hot tub.
- Customers said they would be willing to pay between £4000 and £7000 for a plumbed-in hot tub.
- 60% of customers said they would be put off from buying a plumbed-in hot tub if there were long waiting times for delivery.
- 40% of customers said they would be reluctant to purchase an expensive product without first seeing it in a showroom.

Selling more expensive hot tubs will be a large financial investment for Barry. He has estimated the following costs:

- To employ two new members of skilled staff to deliver and fit the hot tubs will cost £80 000 per year.
- To purchase the van he will need to transport the hot tubs will cost £50 000.

Barry is predicting that he can make a profit of approximately between £600 and £1000 on each plumbed-in hot tub he sells. Depending on the specification and style of the plumbed-in hot tub, he will have to pay between £4000 and £6000 to the supplier. Barry is concerned about cash flow because there is going to be a lot of money going in and out of the business.

Barry has been very successful selling inflatable hot tubs online; will he be as successful with the plumbed-in hot tubs?

BLANK PAGE

BLANK PAGE

BLANK PAGE