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BUSINESS STUDIES **0450/23**

Paper 2 Case Study **October/November 2020**

INSERT **1 hour 30 minutes**

INFORMATION

- This insert contains the case study.
- You may annotate this insert and use the blank spaces for planning. **Do not write your answers** on the insert.

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Agricultural Diggers (AD)

AD manufactures agricultural equipment in country Z. It was set up as a family owned private limited company 30 years ago. The directors wanted to expand the business and needed additional capital. Therefore, 10 years ago they decided to convert AD to a public limited company. This resulted in the family losing overall control of the company.

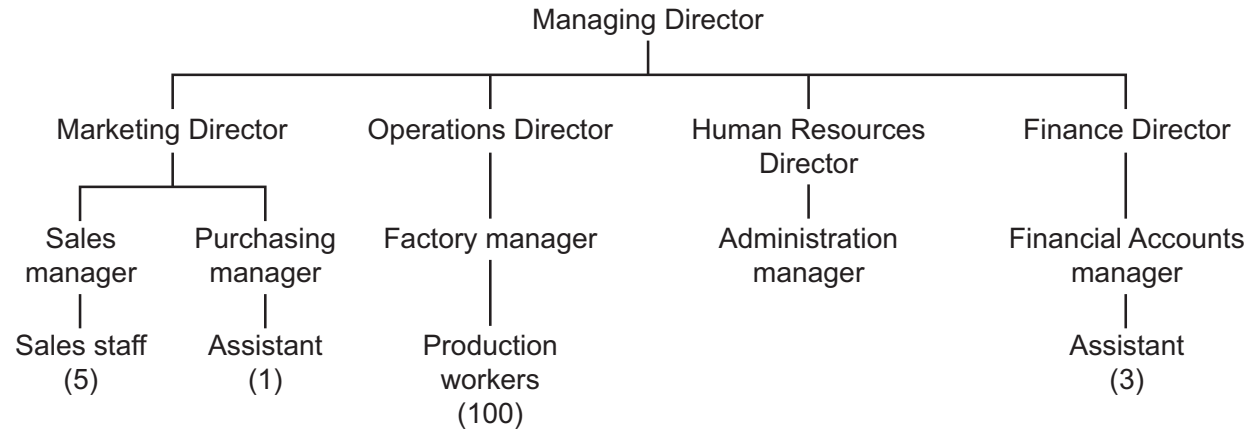
AD's agricultural equipment includes diggers, ploughs and tractors. This equipment is mainly sold in country Z through specialist agricultural shops that only sell to farmers. The directors of AD want to further expand by exporting to other countries. This will require a large capital investment of $20m to expand the factory so that output can be increased by 30%. When AD was a private limited company it used retained profit to finance expansion. However, now it is a public limited company it is becoming more difficult to use retained profit. AD's shareholders and directors often have different ideas about how profits should be distributed.

AD is able to charge high prices for its products as it has an excellent reputation for reliable, high quality equipment. AD has trade stalls at the main agricultural shows in country Z. It will need to find ways to gain a good reputation in other countries and raise awareness of its niche market products. AD will also need to adapt its products to meet the needs of farmers in other countries where crops and soils are different to those in country Z.

AD employs only skilled workers in its factory. They receive high pay as the directors feel that well-motivated employees are essential to maintaining high productivity in the factory. This helps reduce recruitment and training costs because few employees leave.

Appendix 1

Organisational chart for AD



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Appendix 2

Main News article

Country Z is a developed country with low and stable economic growth rates. A large percentage of its GDP comes from agricultural and mining output. However, country Z still imports many food products. There has been a recent announcement from the government in country Z that the rate of inflation has increased from 5% to 10%.

As a result of the rise in the rate of inflation, interest rates have also increased. Smaller businesses are most likely to be affected as larger businesses can often agree lower interest rates with their banks. Many farmers are not happy with this increase in interest rates as they often use bank loans when buying equipment.

Appendix 3

Summary of AD's financial information from its last three years of trading

	2019	**2018**	**2017**
Revenue	$100m	$80m	$60m
Gross Profit	$20m	$20m	$15m
Profit	$8m	$7m	$6m
Current ratio	1.5	2	3
Acid test ratio	1	1.25	2

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