



UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
Cambridge International Diploma in Management
Professional Level

CASE STUDY

4253/01

Core Module

Valid between 1 January 2008 and 31 December 2008

READ THESE INSTRUCTIONS FIRST

You should read the assignment carefully.

It is important to complete the **Assignment Cover Sheet** when you have finished your work. You must complete the details and sign the declaration to confirm that the assignment is all your own work and your tutor must sign to verify that it is your own work.

The organisation described in this case study is entirely fictitious.

The length of the assignment must be no more than 5000 words. Marks will be deducted from assignments that exceed the word limit.

This document consists of **6** printed pages.



Case Study – Core Module

Title: Prestige Property

Prestige Property (PP) is a small property development company based in your country, but not in your region. Its successful business model has encouraged the company's directors to consider expanding their market into your region. Depending upon the level of success, they will then consider further projects in other regions.

A representative of the company has come to you for advice and guidance on how well their current business model will work in your region, city or town.

You learn the following information about the company at a number of meetings where the task, which you accept, is explained to you.

Company information

PP is a privately owned company, which specialises in developing affordable housing for local people. It has a strong environmental awareness in terms of energy efficiency and fairness to all parties. PP limits its profit margin so that local people can still afford the cost of rental or purchase of its property.

In principle, PP renovates poor quality housing or builds new houses in any area where there is a local need. This may be within cities, towns or rural locations. The need is determined not by market forces alone, but in particular by local, district and even national government policy and planning.

PP has found an unusual position in the market in that most development companies are concerned primarily with profit and rapid turnover regardless of the environmental consequences. PP works with funding agencies and acts in a project management role to ensure that public and private investment is well spent. The company, wherever possible, employs local workers and craftsmen and seeks to maintain the environment and features of the locality, as well as incorporating modern design features and using local products. The company always tries to use recyclable materials and provide affordable, well-built accommodation.

Once the accommodation is complete PP establishes a management partnership, with representatives of the organisations that have provided the funding, to manage the transfer of the accommodation. The houses may either be sold directly to eligible local people or ownership may be transferred to the management partnership which then sells on or leases to local occupants. Once all the property has been transferred, PP withdraws from the management partnership.

PP makes its operating profit from project managing the funding processes and building programmes. This profit derives from fees accounted for in the grant application to the funding organisations and is usually budgeted at between 12-20% of the total funds available. However, this depends upon a number of factors that include the complexity of the project, the amount of funding available and the percentage of the total cost being met by PP through its own investment strategy.

Investment finance comes from profit after sales: PP generally provides up to 25% of the funding required for a project, with the remainder coming from government, regional, local and private investment. The company budgets for at least 20% profit on their share of the funding on the sale of the property to occupants or to the management partnership: this profit is set aside for the next project.

A percentage of the investment profit, usually up to 25%, is set aside for land purchase. This often includes the purchase of “brown field” sites in urban areas (old and no longer used industrial land) or of non-agricultural rural land, which they expect to become valuable in the future. This land will then be used to attract funding when the economic conditions and housing demands are appropriate. At present, these “parcels” of land are relatively small in number but they constitute a significant part of the investment portfolio. However, they are expected to provide long term operational and financial security for the company.

The company pays no dividends to any shareholders.

The company has no plant, machinery or premises as assets. It prefers to lease all resources against each individual project. The company’s small offices, IT equipment and cars are also leased as fixed overheads.

The keys to the success of the company to date have been:

- Transparency and integrity of the financial operation
- Use of local professionals and trades/craft people
- Operational/financial regeneration of the local economy
- Provision of affordable housing, designed to be in harmony with the local environment.

The company retains all project management functions and recruits locally to site manage projects. The company pays the appropriate local rate for the work and, because the funding is always fully in place or tightly contracted to be so, payment to contractors is always punctual. The company is popular with contractors because of this and generally the quality of all work is very high.

Summary of operational strategy

The general operation method is for PP to:

- Use their own land to attract government housing and regeneration funding
- Respond to tenders for government and/or externally funded regeneration projects
- Allocate up to 25% of the funding from its own resources
- When successful in winning the tender, arrange the design, planning and building contracts
- Manage the funding and payment process for all contractors/sub-contractors
- Ensure quality of product and adherence to legal, cultural, environmental, commercial, ethical and social commitments
- Work in partnership with local agencies, including government and the private sector, to create socially responsible sale and leasing of the properties
- Ensure the transparency of the financial management of funds, including its own operating costs and investment profit after sale
- Prepare and make publicly available all financial and quality reports as required.

Future Strategy

At present, PP has an excellent reputation within the region of your country in which it operates. It has successfully managed nine completed projects from inception to completion within 5 years, with a total budget of US \$11.2 million. With an investment budget of US \$1.6 million, the company now wishes to explore options for working in other areas of the country, using the same model.

In order to do this, they are aware that they will need information on at least the following areas before they can develop an effective business plan:

- Cost of urban “brown field” and non-agricultural rural land
- Funding opportunities for regeneration and housing provision
- Cost of run-down or derelict property that could be renovated
- Costs for planning, design and building of potential projects
- Sale and leasing values for local housing, particularly social housing that includes all variations of ownership models
- Issues raised for a company wishing to work within your area, as well as any changes to their operational methods that they will have to make to comply with your regional laws and regulations
- The return on investment the company could expect to achieve.

From this information, they want to be able to construct a two year business plan for working in your region, detailing:

- Funding levels available
- Operating costs
- Expected investment and profit levels
- Operational changes required to meet local legislation/regulations
- Implications and methods for managing information for such an expansion.
- A clear indication of the benefits to the local community that such an investment would bring.

Your Task

The proprietors of PP have commissioned you to find out this information and prepare a report with your recommendations on the feasibility of their plans.

In preparing this report, you should consider at least the following:

- The availability of funding for regeneration purposes, through government, regional, international and private investment
- Appropriate housing regeneration opportunities and costs
- The change, in economic and social terms, to the local community that such an investment would bring
- Labour market costs for design, planning and construction or renovation of the housing stock
- Sale and leasing costs when completed
- Implications for PP in terms of operational changes they will have to make and how information could be managed.

This information should be evaluated to provide a justifiable recommendation for action. The recommendation needs to be based on the feasibility of the operation as a whole, and the profitability for PP, in accordance with their financial expectations as described above. It is acceptable for your recommendation to be that PP should not set up business in your region.

Your report, addressed to PP, should contain:

- A review of how such housing regeneration would benefit your area, showing the forces for change taking place in your area at present and anticipated in the future
- Details of funding availability and costings, including investment requirements and expected return on investment for the company
- Operational changes required for PP to work in your area
- How you have evaluated the information and drawn your conclusions
- Your recommendations in the form of a detailed two-year financial forecast, illustrating the feasibility of the business model operating in your area.

Information about PP which is not given may be assumed and all such assumptions should be justified.

In writing the report, you should adopt a business format in the style of a consultant and show how knowledge and understanding of general management have been applied.

At the start of your report, indicate the number of words used, which should not exceed the maximum permitted amount of 5000 in the main body of the report.

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