



Business assessment activity – Student worksheet

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Total marks available 25

You have 30 minutes to complete this assessment activity.

Case study

ADSports is a leading sportswear brand in the UK which has over 540 stores. The company was set up in 1988 and has grown organically during that time.

ADSports sponsors a large number of successful sporting teams and leading sporting events and through these sponsorships it has established itself as a premium sportswear brand. ADSports, in recent years, has attempted to develop its brand even further by capitalising on the growing fitness market in the UK.

To capitalise on this market, ADSports opened 100 gyms in 2019 where members pay for their membership annually and – although initial membership and net profit was high – it has struggled since the Covid-19 pandemic to return a profit from its gym operation.

| | 2019 (pre-Covid-19) | 2023 (post-Covid-19) |
|-------------------------|------------------------|-------------------------|
| Membership sales | £4000000 | £4500000 |
| Cost of sales | £1800000 | £4000000 |
| Gross profit | £2200000 | £500000 |
| Gross profit percentage | 55% | ? |
| Rent | £400000 | £600000 |
| Business rate | £60000 | £80000 |
| Wages | £300000 | £425000 |
| Interest on loan | £10000 | £10000 |
| Other expenses | £20000 | £78000 |
| Total expenses | £790000 | £1193000 |
| Net profit | ? | -£693000 |
| Net percentage profit | 35.25% | -15.4% |

From the figures shown above, the business has recognised it needs to address its gym operation, and to do this the business has two clear options. The first option and most obvious option is to close down its gym operation and the second option is to look for ways in which it can increase its revenue and decrease its operating costs.

ADSports have called in a leading business consultancy firm to overlook their gym operation.

They have given them a list of suggestions of how the business can return to profitability:

1. Introduce a range of gym wear merchandise.
2. Increase membership fees.
3. Reduce cost of sales by leasing equipment as opposed to buying equipment outright.
4. Invest in a marketing campaign to increase gym membership further.

ADSports now needs to make a decision as to whether they act on some or all of the recommendations they have been given.

Questions

Question 1 - What type of business is ADSports? [1 mark]

- a) Local
- b) National
- c) Global

Question 2 - What is organic growth? [2 marks]

Question 3 - Calculate ADSports net profit for 2019 and state the formula used. [2 marks]

Question 4 – Calculate ADSport gross profit percentage for 2023 and state the formula used. [2 marks]

Question 5 – State one advantage and one disadvantage of ADSports sponsoring successful sporting teams and sporting events. [2 marks]

Advantage

Disadvantage

Question 6 - Analyse the impact of ADSports's gym members paying for their gym membership annually. [4 marks]

Question 7 - An additional recommendation which the consultancy business has given ADSports is to make all of their employees redundant and re-employ them on a self-employed basis, so they are only paid for the classes they take. Outline the advantages and disadvantages of ADSports acting on this recommendation. [4 marks]

Advantages

Disadvantages

Question 8 – Advise ADSports whether they should act on all of the suggestions the consultancy business has given them. Refer to quantitative and qualitative data in your answer. [8 marks]

