



UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Advanced Level

BUSINESS STUDIES

9707/03

Paper 3

October/November 2007

CASE STUDY

3 hours



Candidates answer on the enclosed Answer Booklet.

Additional Materials: Answer Booklet/Paper

READ THESE INSTRUCTIONS FIRST

If you have been given an Answer Booklet, follow the instructions on the front cover of the Booklet.

Write your Centre number, candidate number and name on all the work you hand in.

Write in dark blue or black pen.

You may use a soft pencil for any diagrams, graphs or rough working.

Do not use staples, paper clips, highlighters, glue or correction fluid.

DO NOT WRITE ON ANY BARCODES.

Section A

Answer **all** questions.

Section B

Answer **one** question.

You are advised to spend 40 minutes on Section B.

The businesses described in this question paper are entirely fictitious.

At the end of the examination, fasten all your work securely together.

The number of marks is given in brackets [] at the end of each question or part question.

This document consists of **5** printed pages and **3** blank pages.



Curry Cuisine

Setting the scene

From an early age Ling was determined to become a chef owning her own restaurant. After completing a college catering course she was lucky enough to gain a junior chef's position in the smartest restaurant in town, the Asian Experience. She had to work long hours and put up with some dreadful working conditions. Despite being an expensive restaurant, the kitchen was small and always very hot and crowded. Chefs had to work under great pressure but they were paid a good hourly wage rate. Ling worked hard but this did not prevent her from being bullied and shouted at by the Head Chef. He seemed to believe that shouting instructions was the only way to ensure staff worked hard. Ling felt that she was being discriminated against. Chas, another young worker, was unhappy with the working conditions but both he and Ling tried to ignore the problems as they wanted to progress their careers.

The business start-up

Ling and Chas struck up a friendship and decided to use their experience to set up a restaurant together. After three years they had had enough of being shouted at! They were offered premises in the centre of town. They did not want to lose this site so they hurriedly signed a ten year lease. They decided that the restaurant would specialise in curries and other Asian dishes – they called it Curry Cuisine. They could not afford any market research but they often cooked this type of meal for their friends and it was always very popular.

The joint owners set up the business as a partnership. They each invested \$10 000 of their own savings and the rest of the capital needed, \$80 000, was financed by a variable interest rate bank loan.

They had to employ a trained restaurant manager as their own experience had been gained in kitchens. The building needed more work doing to it than they had predicted. However, the choice of location turned out to be crucial to the success of the business. They realised that a newly completed large office development was leading to many new customers. The key selling point of the restaurant was that every customer had food that was freshly prepared, even if there was a wait before it was served. This involved very labour intensive job production.

Expansion – then problems occur

The success of this first restaurant surprised Chas and Ling as they spent little on promotion. "Word of mouth" from satisfied customers proved to be the most effective way of encouraging new trade. It soon became clear that the existing premises were too small and a new location was found. The building was three times larger than their first restaurant with a huge kitchen. Ling recruited many more staff. She was careful to follow all of the legal requirements in the selection of staff. She wanted skilled workers who could work in a team with the minimum of management supervision. Ling wanted to encourage initiative and responsibility as she thought this would bring the best out of the workers. All staff were offered a chance to be in a profit-sharing scheme.

Chas took charge of fitting out the kitchen with new equipment. This included huge new fuel efficient cookers that allowed very accurate temperature settings. Strict health and safety laws had recently been passed. Chas was determined that the new restaurant would exceed all minimum standards. This would encourage good workers to look for jobs there and would give customers confidence too. Initially, the restaurant was popular but sales soon started to fall. Other restaurant businesses offering freshly prepared food had opened in the same area. This increased

competition. Ling had to make some staff redundant which she did after a careful appraisal of every worker including an interview with each one. 50

The decline in the number of customers meant that there was now excess capacity in the kitchen. Cash was flowing out of the business to pay overheads and interest and Chas and Ling realised that quick action was needed to save the business.

The “ready made meals” proposal

Chas was sure that the way forward was to diversify into a different market segment. 55
 Returning from a holiday in Europe he had been amazed at the number of restaurants offering packaged “ready made meals” sold as “take-aways” as well as still running a normal restaurant service. The most successful ones sold these packaged “ready made meals” at very competitive prices. “We could adapt the unused space in the kitchen and, by building an extension, set up batch production for the most popular 60
 dishes. Computer controlled equipment could mix and cook the dishes and package them ready to be taken away. A delivery service would expand the market further. We could create a web site that would allow customers’ orders to be placed “online”. By keeping the same brand name for these meals we would not need to spend 65
 anything on promotion.”

Ling was excited by the proposal but needed convincing. She asked a management consultant to prepare a report on the likely impact of the project on the business.

The management consultant’s report was optimistic. Compared to the latest data available (see Appendix A) the sales of the business could double within one year, but the overall company gross profit margin would fall to 30%. Overhead expenses 70
 would rise by 40%. A further loan of \$60 000 with an annual interest of 10% would be needed if the capital required could not be gained from internal sources. The report did suggest that planning permission for the kitchen extension might be difficult to gain as the dirt and fumes from this would affect local residents.

Chas was keen to go ahead immediately with the project. Ling, however, advised 75
 caution. She was not sure the business could raise the capital needed for the high technology equipment from internal sources or bank loans. Also, did they have enough information to market this new type of product successfully? What objectives were the partners trying to achieve? What type of customer would use the take-away service? What prices should be charged? Were there any local competitors? Would 80
 the use of batch production have a negative impact on the image of the business? Ling wanted to discuss these and other issues with Chas but he could not see any problems – only future profits!

Appendix A
Profit and Loss Account for year ending 31/10/07

	\$000
Sales Revenue	90
Cost of goods sold	54
Gross Profit	36
Overhead costs	15
Interest	8
Net profit	13

Appendix B
Other accounting data for year ending 31/10/07

	\$000
Fixed assets	130
Current assets	75
of which: Stocks	20
Current liabilities	85
Long term borrowing	50
Capital employed	120

Section A

Answer **all** questions in this section.

- 1 Discuss the strengths and weaknesses of Chas and Ling's original business start-up. [14]
- 2 (a) Analyse **two** possible problems that might result from the approach to managing staff used within the Asian Experience kitchen. [6]
(b) Evaluate the appropriateness of Ling's approach to managing staff within the Curry Cuisine restaurant. [14]
- 3 (a) Draw up a forecasted Profit and Loss Account for 2008, using the data in Appendix A and the management consultant's estimates. (lines 68-74) [8]
(b) Briefly assess **two** ways in which the gross profit margin could be raised for the take-away products (calculations not needed). [8]
- 4 To what extent do you agree with Ling that the business would have problems raising the capital needed for the "ready made meals" project either from internal sources or from a loan? The use of relevant accounting ratios (based on the data in Appendix B) to support your judgement will be rewarded. [14]
- 5 Evaluate the advantages and disadvantages to Curry Cuisine of using batch production methods for the "ready made meals" project. [16]

Section B

Answer **one** question from this section.

- 6 Discuss the extent to which the successful expansion of a business, such as Curry Cuisine, is helped or constrained by the external factors of **technological change** and the **legal environment**. [20]
- 7 Assume that Chas and Ling decide to go ahead with the "ready made meals" proposal. Evaluate the arguments for and against developing a marketing plan for this project. [20]

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