



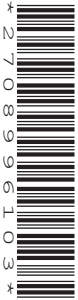
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AS GCE BUSINESS STUDIES

F292/01/CS Business Functions

PRE-RELEASE CASE STUDY

JUNE 2015



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Qué Rico Ltd (QRL)

Qué Rico Ltd (QRL) operates a chain of 'Tapas' restaurants across the UK, serving 'an authentic variety of Spanish food and drink'. In every QRL venue the aim is to deliver a traditional Spanish-style customer experience, ranging from the food and drink on the menu to the classic iron railings and hand-painted tiles inside every restaurant, as well as each member of staff speaking Spanish as their first or second language.

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QRL is a company in the middle of a major transformation which will hopefully save it from the same fate as many of its competitors over the last few years; demise.

Until 2012 QRL was just one of the brands owned by a multi-national company. However, when this multi-national company went into administration, QRL was sold off as a stand-alone business to a well known 'celebrity chef'. Unfortunately, the 'celebrity chef' was better at being a celebrity than being a business owner and QRL again fell into administration in early 2013. QRL's current owner is a private equity firm which specialises in 'distressed companies'. It acquired QRL's entire share capital in March 2013 and brought in a completely new management team led by Chief Executive, Amy Brown.

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When Amy arrived at the company she encountered a struggling business laden with debt and which was significantly under-performing. It also had a number of sites which were making substantial losses. By the end of her first 18 months in charge, Amy had overseen the disposal of 22 of the worst performing restaurants and had negotiated improved deals, including rent reductions in some cases, with QRL's remaining landlords. The closure of these 22 sites is forecast to lead to a fall of more than £10 million per year in turnover. However, the improved profitability of the now smaller chain of 40 restaurants has led to a projected pre-tax net profit of approximately £2.2 million from a turnover of £40 million in the current financial year ending 31 August 2015.

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One aspect of the business which Amy does not want to adversely affect is the staffing. QRL currently employs 1 560 staff (both full-time and part-time) in its restaurants, as well as 20 full-time staff at head office. QRL has a fairly good reputation in the restaurant industry with regards to how it looks after its staff. It is committed to recruiting 'exceptional people' for every job, whether it is as a manager, a chef or a waiter. All staff are seen as being integral to the success of the business. An emphasis is placed on the continual learning and development of staff and QRL has its own in-house training programme, in partnership with an award-winning e-learning provider. However, partly to reduce costs, and partly to improve customer service, Amy and her management team have introduced two new workforce initiatives in the past six months.

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The first initiative is a simplified staff training scheme, aimed initially at new recruits. This focuses on basic standards of customer service, such as the body language and appearance of the staff member, the accuracy of customer orders and the level of customer interaction. This has simplified the previous training programme which covered 75 service standards.

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The second initiative is a more sophisticated and integrated IT system. Every manager and waiter uses an electronic device, the size of a small 'smartphone', with a touch screen. Each of these is wirelessly connected to the restaurant's intranet and can be used to record data. This allows staff to manage customer bookings, take food and drinks orders and to issue or redeem special offer vouchers. There have been some 'teething problems' with the technology, occasionally leading to the staff having to revert to using the old-fashioned paper-based systems. Amy is also aware of a significant number of staff complaining about the complete lack of training provided on how to use this new IT system. Amy knows that the reason for this was that the simplified staff training scheme was designed before the decision was taken to introduce the IT system. Changes are currently being made to the staff training scheme which will cover the new IT system.

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In readiness for the next board meeting, Amy has received the latest HRM report from QRL's Personnel Manager (see Table 1 & Fig. 1 for two excerpts from this report). In addition to the agenda item about the changes to the staff training scheme, Amy has added another item concerning labour turnover, as a result of seeing this data.

QRL's labour turnover in restaurants by region

| Region | Q1 2014 | Q2 2014 | Q3 2014* | Q4 2014* |
|------------------------|---------|---------|----------|----------|
| London & South | 12% | 11% | 14% | 16% |
| Midlands & East Anglia | 9% | 9% | 7% | 9% |
| West & Wales | 4% | 2% | 6% | 5% |
| North | 5% | 7% | 6% | 15% |
| Scotland | 3% | 4% | 8% | 5% |

* Forecast figures for Q3 & Q4

NB: The above table only includes data from the 40 sites which remain open

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Table 1

QRL's restaurant workforce age profile (latest data)

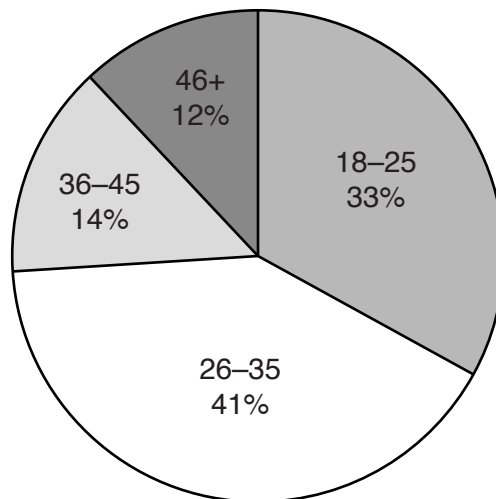


Fig. 1

Another issue to be agreed at the forthcoming board meeting, as part of the turnaround of QRL, is the choice of the next investment project. Now that it is a smaller organisation, and one which should return to profit during the 2014–2015 financial year, the management team is confident that it can gain access to further loans from the banks, even though QRL's accounts do not currently look that healthy (see Appendices 1 & 2). The company's auditors have confirmed that QRL is expected to generate sufficient positive cash flows for the foreseeable future and it is, therefore, a going concern. Following consideration of many investment projects, two possible options remain. QRL's Financial Director has carried out the necessary research, both qualitative and quantitative, which is contained in a report which Amy now has on her desk (see Table 2 for one excerpt).

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Excerpt from report on the final two investment project proposals

| Year | Net annual cash flow (£) | |
|------|--------------------------|---------------------------|
| | Marketing campaign | New ovens in the kitchens |
| 0 | (£600 000) | (£1 000 000) |
| 1 | £200 000 | £300 000 |
| 2 | £300 000 | £300 000 |
| 3 | £200 000 | £300 000 |
| 4 | £100 000 | £300 000 |
| 5 | £50 000 | £300 000 |
| 6 | £20 000 | £200 000 |

Table 2

The 'marketing campaign' proposal is for two separate three-month long advertising campaigns over an 18-month period, focusing on print-based advertisements in local newspapers and 'what's on' guides. These will be targeted at those regions where QRL has the highest density of restaurants. 60

On the other hand, many of QRL's restaurant kitchens are becoming rather dated and the company's Head Chef is keen to have new ovens installed. These would not only decrease cooking times but also increase oven capacity, allowing some new items to be added to the menu. In addition, the new ovens would be more energy efficient. 65

QRL's Marketing Manager, John Sodje, is working on a more strategic project which will have an impact on the company's future. A recent trend in the UK market has seen consumers increasingly rejecting national brand names in favour of local businesses. A number of 'big name' companies have responded to this challenge by carrying out 'de-badging' strategies. For example, some of the 'pub-style' food chains have given their more exclusive venues a deliberately independent feel. In these cases, although there may be a very similar menu and drinks selection across the venues, most customers have no idea that they are eating in a major national chain. More and more businesses, especially in the restaurant industry, are launching unbranded outlets within their network of sites. 70 75

QRL had already experimented with this 'de-badging' strategy before Amy joined the business. Her predecessor was quoted at the time of the re-launch as saying, "The QRL venue in Oxford has been under-performing for some time. It was a tired asset that was under-utilised and not fit for purpose. We want to move up in the customer demographics to a more up-market position. These demographics demand innovation and independence alongside quality. However, this is a one-off independent site and not a complete rebranding of QRL." 80

The Oxford site, named La Flor y Nata, opened in January 2013 and sales trends have been very positive so far. John is now finalising plans to de-badge more QRL restaurants over the next two years, which could see as many as eight of the 40 QRL sites having their own unique name and style. 85

He wants this strategy to be implemented at the same time as the business tries to focus on increasing the number of customers visiting each QRL restaurant throughout the day. Since June 2014 opening hours have been extended from 11.00 a.m. until midnight every day. This is to help QRL replicate the authenticity of a traditional Spanish bar, by welcoming customers throughout the day, whether for a shot of coffee, Tapas at the bar, or for a meal at lunch or dinner. 90

John is delighted to see confirmation of the new corporate objectives for QRL on the agenda for the next board meeting. These are:

- to ensure that QRL becomes a profitable going concern, with positive net assets, by the end of August 2017 95
- to ensure that QRL has a greater appreciation of local market conditions, while increasing the authenticity of the customer experience
- to increase the daily customer footfall in each restaurant.

John knows he is going to be busy in the coming months and years and is excited by the challenge which will be faced by his department in helping to implement these new corporate objectives. 100

A less pleasant aspect of John's job is reading the summary of customer feedback which is collated for each restaurant on a two-weekly basis. As is common in the restaurant industry, customers are encouraged to provide feedback via a website link listed on the receipt for the meal. Free entry into a monthly prize draw acts as an enticement to customers to offer their views on their meal and all-round customer experience. On average, about three-quarters of the feedback is quite critical, with the rest usually very complimentary. 105

"I can't believe the wide range of responses we get in the feedback," said Jay Mata, QRL's Customer Experience & Quality Manager.

"Well, you know how they always say that people only fill in feedback forms if they want to complain," replied John. "Our evidence certainly agrees with that assumption. If I had a pound for every time I've read that a customer has had a bad experience and that the food was better two years ago, I would be very rich." 110

"If you look at the other common theme in the feedback it is about our pricing methods and, in particular, our 'All You Can Eat' lunch time offer," stated Jay, as she showed John some customer feedback forms (see Fig. 2). 115

- I was appalled by what I saw today. One table near to us was having the all you can eat offer and seemed to think it was OK to order everything off the menu and then leave most of it on the table when they left. The more food they had the noisier they got. It was a most unpleasant experience and one we shall not be repeating
 - Not sure I've ever seen all you can eat offers in any Tapas bar in Spain
 - Very pricey food unless you take the all you can eat option which I don't agree with for lots of reasons
 - It was like feeding time at the zoo – without the cute animals
 - Took ages to get served as your staff were struggling to keep up with tables ordering everything that they could

Excerpts from customer feedback forms

Fig. 2

"I am strongly of the opinion that we need to end the aggressive discounting which the business has become addicted to," argued John. "I am also seeing too many comments from customers and our own kitchen staff that the quality of some of our ingredients is not good enough. The contract with our London-based meat supplier is up for renewal in the next six months and now is the time to put our claims to sell authentic Spanish food into practice." 120

“That’s all part of what I want to now start looking at,” said an excited Jay. “We need to look at this business from top to bottom and focus on the way in which all of the staff, both in the restaurants and here at head office, contribute to a better quality experience for the customer. That includes what we serve them, how we serve them, what we look like and even how much we care about the environment.”

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“Oh no, not the tree hugger agenda,” replied John cynically.

“If by tree hugger you mean green issues and ethics, then yes,” stated Jay. “Did you know that we have no recycling or eco-friendly policies here in the office and we pay many of our restaurant staff the minimum wage, or just a bit more? Those are just two examples, and I could give you more. Between you and me, Amy’s three-year turnaround plan is focused too heavily on the bottom line, 130 without thinking of the bigger picture.”

“Also, between you and me,” replied John. “Anybody who has a three-year turnaround plan does not see the big picture. Amy is only interested in meeting her targets, getting her bonus and then moving on to the next challenge somewhere else.”

QRL Profit & Loss Account (year ended 31 August)

| | 2014 | | 2013 | |
|--------------------------------|---------------|----------------|---------------|---------------|
| | £000s | £000s | £000s | £000s |
| Turnover | 50,488 | | 57,547 | |
| Cost of sales | <u>51,002</u> | | <u>55,998</u> | |
| Gross Profit | | -514 | | 1,549 |
| Expenses | 3,042 | | 1,783 | |
| Exceptional items ¹ | <u>7,121</u> | | <u>7,836</u> | |
| Operating Profit | | -10,677 | | -8,070 |
| Interest | <u>1,089</u> | | <u>311</u> | |
| Profit before tax | | -11,766 | | -8,381 |

¹ The costs of cancelling leases on under-performing sites and a write-down on tangible assets

Appendix 1

QRL Balance Sheet extract (as at 31 August)

| | 2014 | | 2013 | |
|---------------------------------------|---------------|----------------|---------------|---------------|
| | £000s | £000s | £000s | £000s |
| Fixed Assets | | | | |
| Tangible assets | <u>16,894</u> | | <u>23,612</u> | |
| Total Fixed Assets | | 16,894 | | 23,612 |
| Current Assets | | | | |
| Stock | 614 | | 420 | |
| Debtors | 2,461 | | 1,531 | |
| Cash | <u>1,001</u> | | <u>2,002</u> | |
| Total Current Assets | | 4,076 | | 3,953 |
| Creditors due within 12 months | | <u>6,616</u> | | <u>5,899</u> |
| Net Current Assets | | -2,540 | | -1,946 |
| Creditors due after 12 months | | <u>26,881</u> | | <u>21,724</u> |
| Net Assets Employed | | <u>-12,527</u> | | <u>-58</u> |

Appendix 2

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