



GCE A level

1083/01

BUSINESS STUDIES

BS3

P.M. MONDAY, 24 January 2011

2 hours

ADDITIONAL MATERIALS

In addition to this examination paper, you will need:

- a calculator;
- a 12 page answer book.

INSTRUCTIONS TO CANDIDATES

Use black ink or black ball-point pen.

Answer **all** the questions.

Write your answers in the separate answer book provided.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets at the end of each question.

You are reminded that assessment will take into account the quality of written communication that involves extended writing in questions 4 and 5.

You are reminded that questions 4 and 5 are synoptic and so will test understanding of the connections between different elements of the subject.

Study the information provided about *Greggs plc* and answer the questions that follow.

Greggs plc claims to be the leading bakery retailer in the UK. The company employs 19 000 people in Britain and has shops in a variety of locations, not just in the high street and shopping parades, but increasingly in retail, industrial and business parks, airports and bus/railway stations. Greggs has ten regional bakeries, a specialist savoury production factory, two major distribution centres and a fleet of 375 delivery vehicles.

GREGGS' HISTORY

Greggs was founded as a family bakery business on Tyneside in the 1930s by John Gregg. When John died suddenly in 1964, Ian Gregg gave up his plans for a legal career in order to take over the business, which at that stage consisted of a single shop with a small bakery at the rear. Under his leadership, the business expanded to become a retail chain in the North East. Greggs established the principle of serving a cluster of its stores from a single central bakery, achieving efficiencies which could be passed on to the consumer in value-for-money pricing.

The business expanded out of its North East heartland by acquiring and developing established regional bakery chains based in Glasgow (1972), Leeds (1974) and Manchester (1976). At the time of its flotation on the London Stock Exchange in 1984, it had 261 shops in four regional divisions. Over the next 10 years, Greggs continued to grow both organically and by acquisition, establishing new regional operations in Birmingham (1984), South Wales (1985) and North London (1986). By mid-1994, it had had 502 shops in seven regional divisions. It then acquired the retail bakery interests of Allied Bakeries Limited, adding 424 shops and a new brand - Bakers Oven.



Over the years, Greggs has evolved from a traditional high street baker into the leading UK specialist retailer of sandwiches, savouries and other bakery products for the takeaway food market: these product categories now account for around two thirds of the Group's total sales. There was, and still is, an emphasis throughout the Group on constantly improving the quality, consistency, value-for-money and sheer enjoyability of its products.

This has been aided by major investments such as the highly efficient, automated central savouries plant in Newcastle-upon-Tyne, commissioned in 1998 at a cost of £9 million.

The most recent period in Greggs' history has seen a decision to rebrand Bakers Oven shops as Greggs. This will allow Bakers Oven shops to benefit from national Greggs' advertising and means that more customers across the country can now have access to Greggs' products. The rebranding process started in early 2009 and will be rolled out over the year.

Today there are over 1400 Greggs' outlets throughout the UK, but significant potential for further expansion has been identified both within existing trading areas and in those parts of the country where the Group is currently unrepresented.

35 GREGGS' VISION AND VALUES

The company says that its **vision** is “to be the number one for sandwiches and savouries from a united team that is passionate about being the best in the bakery trade”.

For the customer Greggs states that “we offer a wide range of fresh, great tasting food, made with quality ingredients. Every single sandwich we sell is hand-made in the shops each day by our highly trained staff. All of our savouries are sold fresh from the ovens from our shops every day. All our bread is delivered to our shops every morning from our regional bakeries or baked fresh in store at one of our in-store bakeries. Our combination of regional bakeries serving local shops, in-store bakeries and a first-class savoury production centre means we can give our customers unrivalled daily-freshness at great value prices”.

For its employees Greggs say that it aims “to provide a Great Place to Work, where our people feel valued, are looked after, and where each individual is recognised as integral to the success of our business”.

The company has the following to say about its **values**: “we will be enthusiastic and supportive in all we do, open, honest and appreciative, treating everyone with fairness, consideration and respect.”

For the community Greggs “promises to continue to help make a difference to people’s lives. Through our award winning Greggs Breakfast Club scheme for primary schools, the Greggs Foundation, Children’s Cancer Runs and other fund-raising activities, we strive to make a positive impact on people’s lives, building a strong community reputation in the areas where we operate”.

For shareholders Greggs state that it has “a proven track record of success and return on investment. Importantly, in today’s economic climate more than ever, we offer the assurance and commitment that our business is run with integrity and that we are a responsible company. We are proud that Greggs is a trusted, valued and respected business”.

60 AN ARTICLE FROM THE TIMES NEWSPAPER

Under the headline “a British baker that caters to the average bloke”, a recent article by Sathnam Sanghera in the Times newspaper had the following to say:

“Lunch, for me, is usually a solitary affair but last Friday I broke with the habit, walked past my local patisserie and joined the long queue trailing into the Kentish Town branch of Greggs. Why? To work out why it is doing so well.”

And Greggs really is doing very, very well. As banks teeter and entire nations inch towards bankruptcy, the baker is thriving in the UK. It has twice the number of outlets as Starbucks and 200 more outlets than McDonald’s in the UK, and it recently announced plans to open 600 new stores at more than double its historic rate of new shop openings — between 50 and 60 new stores next year, and 70 a year from 2011 onwards.

The conventional wisdom is, of course, that Greggs’ success comes down to price: in a recession, people buy more cheap comfort food, and price is certainly a factor: for example Greggs’ current “meal deal” offer, which allows you to get a sandwich, Walkers crisps and bottle of water for £1.99, is incredibly cheap.

But you would be mistaken to assume that the success of Greggs is just about good value: the company also has a very good understanding of its core customer, the average bloke. It has realised that, for all the recent trends in food for healthy eating, blokes basically want good value grub they can buy quickly and eat on the go.

- With this in mind, they have made Greggs the perfect masculine retail experience. Some might find the blue and yellow decor tasteless, and the interiors soulless, but they are fantastically functional — the stores don't invite you to sit around but instead encourage you to buy your stuff and leave. They also sell proper crisps instead of posh handbaked varieties, and there is something fantastically blokeish about the brand name "Greggs". At least, saying you're off to Greggs for lunch is significantly more manly than saying you're off to a patisserie.
- 85 Another factor behind Greggs' success: its relentless Britishness, and while British cuisine has become cosmopolitan, with TV chefs bringing us recipes from Asia and America, Greggs focuses on traditional British food : the sandwich, the pasty and the cake, and when it does experiment with international fare, it does so firmly within British culture, e.g. by selling chicken tikka pasties. Herein lies the genius of Greggs: it understands that, while its customers might fancy a bit of something foreign, they are like people who visit Benidorm, who want it only in a British package.
- 90

Which brings us to the final secret behind Greggs' success: it is brilliant at picking locations, not just in choosing ordinary high-street locations, but elsewhere too.

- For example, Greggs runs a large shop in Wolverhampton's New Cross Hospital, and according to a recent story in the *Harvard Business Review*, this may be a clever move by Greggs. According to the article, companies that set up outlets in hospital lobbies might be helping to create an emotional bond with consumers.
- 95

- In a recent survey, seven out of ten people said that the presence of businesses added great value to the hospital experience, with many saying they appreciated that the companies were there for customers in a time of need. About 68 per cent of respondents also reported that a retailer's presence in a hospital had a positive influence on whether they would purchase from the business again at another location and whether they would provide favourable word-of-mouth recommendations to relatives and friends.
- 100

- While Greggs may be sneered at by the middle classes, at the moment there is no other company in Britain that understands its market better."
- 105

Adapted from the Times 16 November 2009

Breakfast at Greggs.
A fresh start to the day.

Only
£1.99

Served until 11.30am.

**A squeezably fresh roll,
three slices of oven-baked
bacon, served with a fresh
ground coffee for just £1.99.**

greggs.co.uk
Serving suggestion. Subject to availability.

GREGGS The home of fresh baking™

AN ARTICLE FROM THE INDEPENDENT NEWSPAPER

James Thompson interviewed Ken McMeikan, the new chief executive of Greggs.

Ken McMeikan's views on managing people were heavily influenced by his first job – in the Royal Navy aged 16 back in 1981. Later, he was sent to the Falkland Islands. He says: “The services taught me the importance of teamwork, preparation, planning and how to move large numbers of people and to get them in the right place at the right time”. At Greggs, Mr McMeikan is now mobilising his troops for an assault on the British high street.

“The growth opportunity for Greggs is quite huge. The shop growth is really just one part of the growth opportunity. I believe Greggs has the opportunity to expand internationally”, says Mr McMeikan, while stressing that overseas is not a “short or medium term priority”. Certainly, Greggs has a loyal army of customers. It serves nearly six million consumers who tuck into 2.5 million sausage rolls each week. Mr McMeikan says: “I love the sausage rolls. I think they are the nation's favourite. There is a fan club on Facebook for the [Greggs] sausage roll”.

To help drive its expansion, the chief executive revealed that Greggs' property team is considering acquiring about 100 stores from Threshers which collapsed into administration at the end of October. He said: “Our property team looks at every chain that goes into administration”.

In addition to the growth potential, there were a number of other reasons why Mr McMeikan joined Greggs. He says: “The company was strong. It was cash generative, had no debt and had performed exceptionally well for shareholders. It had an excellent baker heritage and it is not uncommon to meet a shop manager who has been there for 40 years”.

For the foreseeable future, it is Greggs' UK employees who represent the future of the business. Mr McMeikan says his favourite part of the job is visiting shops on Friday each week. Mr McMeikan believes firmly in not letting staff know he is visiting a shop. “I believe you get the best out of people if your visit is unannounced. I will sit down and have a coffee with them and ask them how it is. What matters is whether you do anything with it after they have told you something. That is when they build trust in you.”

Mr McMeikan is a firm believer in the employee-centric philosophy of Greggs' management team and founding family: if you invest in, and look after, your staff, they will take care of customers, and shareholders will benefit. In short, this approach seems to be partially reflected in the company's current slogan: “Greggs the bakers – ready when you are”.

Adapted from The Independent, 19 November 2009

GREGGS' FINANCIAL PERFORMANCE**Table 1 - Profit and Loss Account for year ending 27 December**

	2008 (£m)	2007 (£m)
Revenue	636	588
Cost of Sales	240	221
Gross Profit	396	367
Expenses	347	318
Net Profit	49	49

Table 2 - Balance Sheet as at 27 December

	2008 (£m)	2007 (£m)
Assets		
Fixed Assets	217	203
Current Assets		
Stock	12	10
Debtors	23	20
Cash and Bank	4	12
Total Current Assets	39	42
Total Current Liabilities	(81)	(84)
Net Current Liabilities	(42)	(42)
Long Term Liabilities	(28)	(16)
Net Assets	147	145
Capital and Reserves		
Ordinary Share Capital	15	15
Retained Profit	132	130
Shareholders' Funds	147	145

Source: www.greggs.co.uk

1. Explain the benefits to Greggs plc of its vision and values. (Page 3) [8]
2. Explain the advantages **and** disadvantages to Greggs plc of growing **both** organically and by acquisition. (Line 16.) [12]
3. Analyse and evaluate the financial performance of Greggs plc. [14]
4. Analyse the ways in which Greggs plc might be affected by changes in macro-economic factors such as changes in taxation, interest rates and the business cycle. [13]
5. Advise Greggs plc on the desirability of expanding internationally. [13]

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