

**ADVANCED GCE UNIT  
APPLIED BUSINESS**

UNIT 9: Strategic Decision-Making

**CASE STUDY**

**PRE-RELEASE MATERIAL FOR JUNE 2007 EXAMINATION**

**JUNE 2007**

**To be opened on receipt**



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**INSTRUCTIONS TO TEACHERS**

- This case study **must** be opened and given to candidates on receipt.

**INFORMATION FOR CANDIDATES**

- You **must** make yourself familiar with the case study before you sit the examination.
- You **must not** take notes into the examination.
- A clean copy of the case study will be given to you with the question paper.

This document consists of **8** printed pages.

# The Red Lion Inn

## Background

Michael Hulme had just left the offices of his solicitors where he had taken final steps to implement his business plan. He had successfully purchased The Red Lion Inn in the picturesque coastal village of Turton. Michael had, for the past 15 years, been working for a large restaurant chain, firstly as a chef and later as a manager. Michael was sure that this opportunity, if he worked at it, would change his life. He was confident that he knew the catering business and that his personal background would ensure success.



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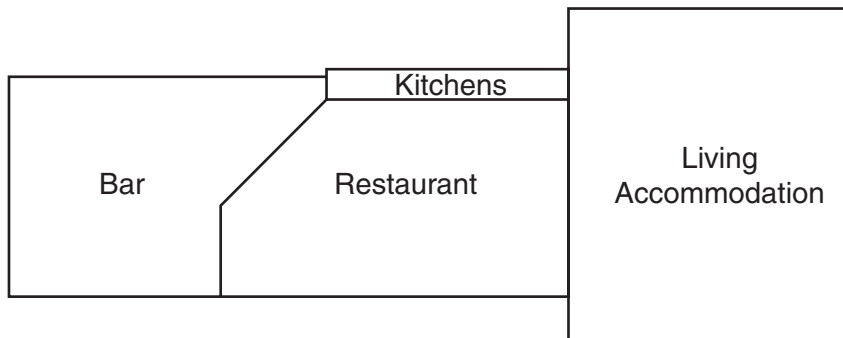
The Red Lion Inn has been open for centuries. It currently employs 20 staff undertaking various responsibilities. These include managers, staff of the restaurant, bar and kitchens and cleaning staff. Currently, The Red Lion Inn serves traditional food aimed at the lower cost end of the market with some success. Recently, however, Paul Funnel, the restaurant manager, has noticed an increase in the number of customer complaints regarding the service and quality of the food.

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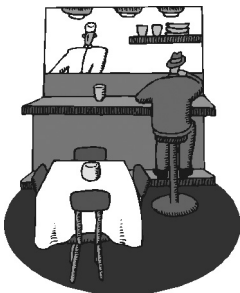
The Red Lion Inn currently has seating for approximately 80 people in its restaurant area with room for a further 60 people in the bar. The owner's living accommodation is attached to the Inn as set out in **Fig. 1** below.

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## Floor Plan of the Red Lion Inn



**Fig. 1**



As part of his plans, the first issue Michael wants to address is to ensure the current performance of the Inn is maximised to ensure high levels of customer satisfaction and, therefore, (hopefully) profits. Michael feels that the need for the full support of his staff will be imperative if he is going to achieve his short-term goals of increasing revenue and profit by 30% as soon as possible. His initial thought is to involve Paul Funnel and Michele Kelly, the bar manager, to analyse the current performance of the staff. He asks each of them for a report on their areas of responsibility.

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## Grand Plans

Michael's grand plan does not stop at increasing the current level of performance by 30%. He has far greater ideas for his new business. Michael already owns a house in the village of Turton so is not concerned about moving into the living accommodation at The Red Lion Inn.

During the months that the purchase of the Red Lion Inn had taken to complete, Michael had contemplated dozens of possible options as to how to utilise its living accommodation space and, therefore, develop the business. There were, however, only three which he called 'his serious options'.

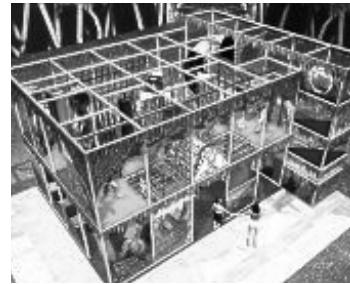
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### Option 1 – The Fun House

The first option that Michael is keen to look into is something that he is thinking of branding as 'The Fun House'. The spare capacity brought about by the non-use of the living accommodation at



The Red Lion Inn could be turned into a children's soft play area. Michael has seen this work very well in his employment with a large restaurant chain and he recognises the additional customer segments it may attract. Michael has managed to source a supplier of the soft play equipment and has received a building quote for conversion costs. The total figure for this option appears to be £20 000.



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### Option 2 – The Red Lion Hotel



The second of the three options on Michael's list is to turn the living accommodation into a guest facility offering bed, breakfast and evening meals. An architect friend of Michael's has helped him draw up some plans which would allow him to use the current catering facilities to serve up to a maximum of 20 guests staying in the adjacent

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accommodation. The conversion costs of this project are estimated to be £30 000, although Michael recognises that there would be greater variable costs, overheads and additional staffing required when compared with option 1.



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### Option 3 – The Red Lion Carvery

The third option appears to Michael to be the more unadventurous option available to him. Michael has estimated that by converting the living accommodation into a carvery restaurant he can increase food sales by at least double their original value. Michael likes this idea, particularly as his research tells him that people are eating out more and more in modern society. The advantages of this option to Michael are that he can continue to utilise his skills, as well as those of current and new staff. This option would increase revenue in a greater proportion than the likely increase in costs of serving more customers. The start up costs for this option have been estimated at £14 000.

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### Decisions, Decisions!

Whilst considering his strategic options, Michael comes across the following table (**Fig. 2**) in a business textbook he has bought. He attempts to calculate the measures of personnel effectiveness for both the kitchen and bar staff. He notices that there are some differences in effectiveness between the two and decides he needs to further analyse and evaluate the current staffing situation.

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### Measures of Personnel Effectiveness

	Measure	Formula	
1	Labour Turnover	$\frac{\text{Number of staff leaving the firm}}{\text{Average number of staff}}$	x 100
2	Absenteeism	$\frac{\text{Total number of days staff off absent}}{(\text{Staff total} \times 365)}$	x 100
3	Labour Productivity	$\frac{\text{Output per period}}{\text{Number of employees per period}}$	
4	Waste Levels	$\frac{\text{Quantity of waste material}}{\text{Total production}}$	x 100
5	Health and Safety	$\frac{\text{Number of days lost due to H\&S}}{(\text{Staff total} \times 365)}$	x 100

**Fig. 2**

Michael could barely hold back his enthusiasm to get started. He was due to take over the business within weeks. His planned development for The Red Lion Inn was split in two. One part dealt with operational issues about which he was relatively confident given his background. The second part dealt with strategy for which he was reliant on the section in his textbook by Michael Porter.

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## Additional Information:

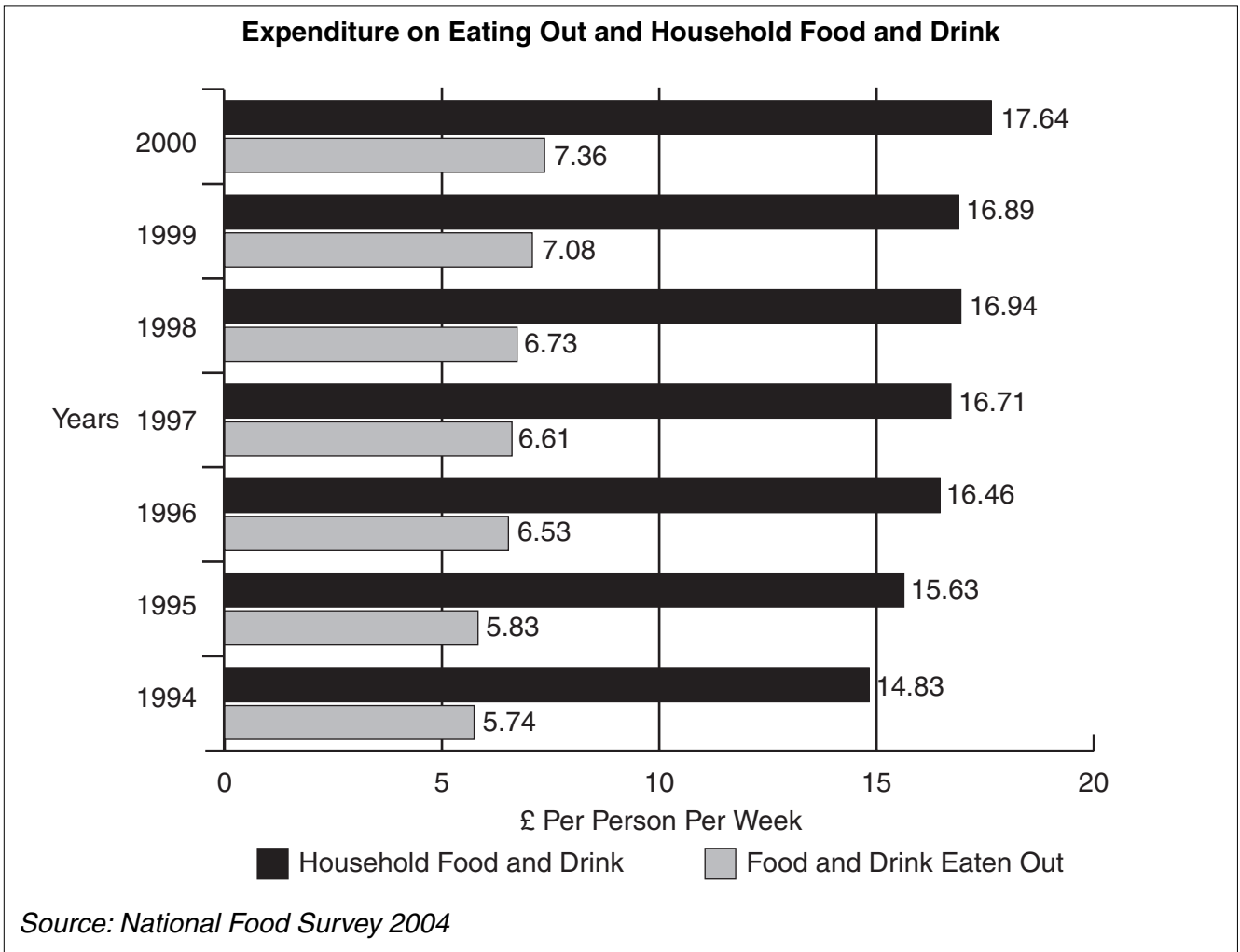


Fig. 3

## **Dining Out – The UK Food Market 2004**

### **Hotels**

Budget hotels such as Travelodge have experienced the strongest growth in recent years and this continues, although at a slightly slower rate as the number of potential sites for budget hotels becomes limited. Their popularity has affected the mid-market hotels more than others.

Business users account for over 60% of all hotel trade. Less than 30% of all adults in the UK stayed in a hotel in 2001, although weekend leisure breaks are becoming increasingly popular. Longer out-of-season breaks offered as a cheap package for older people are also popular.

Rural hotels are popular as a venue for residential conferences, whereas those close to airports or other transport infrastructure are good for corporate functions. Loyalty schemes that reward frequent customers are a recent concept aimed at gaining repeat custom.

### **Restaurants**

Restaurants have seen good strong growth for most of the last five years. Increasing affluence and busy lifestyles have led to increased restaurant usage and household expenditure on eating in cafes and restaurants has increased since 1997. However, even in a growing market place, poor performers do not survive and a large number of restaurants fail each year. Mid-market restaurants, like hotels, are currently the most difficult part of the restaurant sector, as they are squeezed on both sides by an increasing range of low cost options at the budget end of the market and increasingly affluent customers choosing more expensive restaurants at the premium end of the market.

### **Pubs**

The number of pubs in the UK is declining and sales of alcoholic drinks in those that are left are also declining. Food and soft drinks, therefore, make up an increasing percentage of a pub's sales. Food accounts for about 18% of the total sales in an average pub, but in some pubs this percentage rises to over 50%. Growth has been somewhat haphazard, but the value of food sales in pubs is currently growing at about 5% per annum and the market is worth just over £1 bn (this figure excludes formal restaurants in pubs).

Pubs are becoming increasingly segmented. Some have a restaurant or food focus, whilst others focus on sport and providing satellite TV coverage. Some remain community drinking pubs and others have been transformed into young people's bars.

There is evidence of too much branding creeping into parts of the pubs (and restaurants) market, with insufficient differentiation between different branded operators. Even in a fashionable market place, it is necessary for each business to find and maintain its unique selling point.

### **The UK Experience**

The UK eating out market is currently valued at nearly £26 billion and has been growing in real terms since 1998. This expansion should be set in the context of the numerous factors that have adversely affected leisure and tourism in the UK in recent years, especially in central London.

Growth is set to continue. Customers are getting richer and spending more of this new wealth on eating out. At the same time they are finding they have less and less time on their hands.

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The level of employment in the UK has risen by 2.7% since 1988. However, the growth of women working has risen at twice the rate of men – 4.9% versus 2.3% – meaning increased financial freedom, but greater time constraints.

An increased level of media attention on food, restaurants and lifestyle in general means that consumers are more aware of different styles of food, how it should be cooked and what it should taste like but do not necessarily have time to shop for or prepare it.

This trend means that it is increasingly likely that a meal out replaces a home cooked meal, and there has been a marked drop in the number of people who view going to a restaurant as a great way to celebrate a special occasion. It is a way of life as well.

*Source: Adapted from: A Review Of The UK Food Market 2004*

**Fig. 4**

### Industry Background: Sales Trends



One important aspect of the broadening appeal of pubs has been the industry's marketing of pubs to wider social groups, including families, women and older people. Such marketing often includes providing entertainment or aiming 'theme' and 'concept' pubs at those groups.

Total pub turnover rose from £20.6bn in 1996 to £23.4bn in 2004 and average turnover per pub has increased from £285 000 per annum in 1996 to £330 000 in 2004.

One of the major growth areas in the pub industry is the sale of food. Pub catering covers a range of outlets from traditional pubs selling bar snacks to pub-restaurants offering haute cuisine. Food sales in pubs were estimated to account for 23.9% of the total sales turnover in 2004 compared with 12% in 1987.

Catering sales in pubs rose by 27% between 1997 and 2004.

*Source: Adapted from: <http://www.punchtaverns.com>*

**Fig. 5**

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