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ADVANCED GCE**

F248/CS

APPLIED BUSINESS

Strategic Decision-Making

CASE STUDY

TUESDAY 25 MAY 2010: Morning

DURATION: 2 hours

SUITABLE FOR VISUALLY IMPAIRED CANDIDATES

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BEVAN LTD – BUCKING THE TREND?

THE BUSINESS

***Bevan Ltd* is a manufacturer of a buckwheat pancake mix. It has been trading in the Midlands for 15 years, and while other manufacturers have experienced serious decline, *Bevan Ltd* has managed to secure more orders year on year.**

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The secret of *Bevan Ltd's* success is two-fold:

- **THE PRODUCT** – Bevan's own batter mix – a specially developed batter mix made from buckwheat for making delicious yet healthy pancakes;
- **THE PACKAGING** – a 'shake and make' container – similar to the plastic jug-like containers used to sell milk, but filled instead with the buckwheat liquid batter mix, which only requires shaking and pouring into a pan.

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THE BACKGROUND

In the summer of 1993, Jill Bevan graduated from university with a first class honours degree in catering and hotel administration. Unsure what direction to take now that her studies were complete, and intent on celebrating her tremendous achievement, she booked a three-month holiday of a lifetime to the USA. At the beginning of the holiday, whilst touring the Eastern Seaboard, Jill heard about the Preston County Buckwheat Festival, an agricultural and catering festival held once a year in Kingswood, West Virginia. Always interested in food and catering, Jill decided to attend and learn about

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buckwheat, a member of the rhubarb family, believed to have been farmed for many centuries.

It was at the Preston County Festival that Jill tasted her first buckwheat pancake and to her surprise the buckwheat pancake tasted fantastic, even better than the crêpes she had tasted as a little girl in Brittany. Not only did it taste great, the buckwheat offered great health benefits too. Amazed, Jill read that the buckwheat pancakes were high in protein, iron and fibre and low in fat; very different to the rich, high-fat wheat and egg versions traditionally made in the UK. Furthermore, the buckwheat had therapeutic properties for two of Britain's most problematic medical conditions – heart disease and diabetes – lowering blood pressure, cholesterol and blood sugar levels. A gorgeous tasting pancake which was actually good for you, it was almost too good to be true.

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By the end of the holiday, Jill had planned out what her future would hold. She would set up a factory manufacturing gorgeous buckwheat pancake batter, making her rich and Britain healthier and happier! On returning home, Jill used the knowledge she had gained on her degree course to come up with a solid business proposal and a financial plan. Jill persuaded her father, Philip, and her Uncle Jeffrey to contribute most of the start-up capital for her new venture. In order to protect the family wealth, the business was set up as a private limited company. Neither Philip nor Jeffrey wished to have any active part in the day-to-day running of the business. However, both wished to have a say in any future strategic decisions which the company might take, and insisted on having voting rights at shareholders' meetings. Jill never got around to writing a mission statement for the business as it seemed unnecessary, given that she was not seeking

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finance from any financial institution.

Within six months Jill had managed to lease a factory and have it fitted out. Having perfected the recipe, Jill, recruited the necessary staff and production of Bevan's Buckwheat Batter 'shake and make' mix (BBB 'shake and make' mix) finally began in early 1995. By travelling the length and breadth of the country, Jill managed to secure *Bevan Ltd's* first orders from shops, both local and national.

The company managed to break-even in its second year of trading and recorded its first trading profit at the end of its third year. From these modest beginnings the company has seen a gradual increase in profits year on year and now has reserves totalling just over £400 000. *Bevan Ltd* currently employs 20 local residents as production staff (involved in the mixing, packaging, and despatch of the BBB 'shake and make' mix), one factory manager and two administrators. Philip, Jeffrey and Jill remain the only three shareholders. Philip holds 60% of ordinary shares, Jeffrey 30% and Jill the remaining 10%. Jill, the only shareholder to work in the business, currently takes a salary of £40 000 per annum.

THE DILEMMA

To Jill more orders mean more profit and she is convinced that there is more profit to be made. Jill now spends days on end away from the factory trying to win new contracts, especially that elusive first contract with a leading supermarket chain. In the search for greater profit Jill gives little thought to how this extra output can be achieved. Production is nearing full capacity and the equipment is ageing. The factory manager has also warned Jill that employee morale is at an all time low. Despite being burdened

with an ever increasing workload, the production staff are still only paid the national minimum wage. Where once the staff felt as though they were working for an understanding employer, they now feel undervalued and overworked. Without Jill's agreement to a pay rise or an increase in the size of the workforce, the factory manager is powerless to deal with the barrage of complaints that he receives. Many of the production staff are finding new jobs and leaving the company. Jill does not see the discontent of the workforce as a big problem. They are low paid, low skilled workers who Jill believes can easily be replaced. By her own admission Jill's strength is not human resource management; in fact, she does not see employees as stakeholders at all.

Jill's whole focus is concentrated on expanding the business. In the 15 years the business has been trading, Jill has seen significant shifts in society's buying patterns towards time-saving and convenience foods; heightened concern over issues of obesity and healthy eating; and increased consumer spending on eating away from home. Jill believes that BBB 'shake and make' mix is unusual in that it fits all three of these trends and, as all three trends look set to continue, the time is right for *Bevan Ltd* to engage in a major expansion programme.

Whilst, so far, *Bevan Ltd* has grown by targeting ever increasing numbers of shops and retail outlets, Jill has more radical ideas for a major expansion programme. Jill has settled on two possibilities to run alongside *Bevan Ltd's* existing activities, and has prepared reports on both options ready to present to Philip and Jeffrey at the next shareholders' meeting.

THE OPTIONS

OPTION 1 – PANCAKE PARLOURS

As well as current sales of pancake mix, open six pancake parlours selling freshly cooked Bevan's pancakes direct to the public. All the pancake parlours would be located within a 50 mile radius of the factory and offer customers the chance to eat-in or take away Bevan's delicious buckwheat pancakes. The pancakes would be served with a range of high quality fresh fruit toppings, coulis, yoghurt and sorbets. Drinks and complementary refreshments would also be on sale. 135 140

The six shops would have to be rented, fitted out and staffed. Each parlour would need six staff – one manager and five crew. To raise awareness a local advertising campaign would also need to be launched. Furthermore, in order for the current workforce to be able to produce the extra batter mix for the pancake parlours, the existing factory equipment would need upgrading with state-of-the-art machinery. At an estimated cost of £900 000 *Bevan Ltd* would need to use all of its reserves and, in addition, take out a three year business expansion loan of £500 000. 145 150 155

OPTION 2 – CORPORATE CONTRACTS

As well as selling the pancake mix in small containers to shops, seek out large corporate contracts to sell BBB 'shake and make' mix in bulk. Corporate markets such as cafés in motorway service stations, hotel chains, cinemas, bowling alleys and railway stations seem good initial targets. *Bevan Ltd* would need to appoint two sales 160

representatives, one to cover the north and one to cover the south of the country.

The current factory would be unable to cope with the anticipated extra demand for bulk quantities of BBB ‘shake and make’ mix. Jill, therefore, would close the current factory and relocate the existing workforce, and all serviceable equipment, to a new site. Jill has found a much larger factory unit, located some 20 miles from the current site, available on a five-year lease at a very reasonable rent. In addition, the previous occupant, a soup manufacturer which had recently gone out of business, was willing to sell *Bevan Ltd* a lot of the in situ catering equipment at a low price. The automated equipment included two ‘piston-filler’ machines used to fill large containers with liquid. Jill is sure she could utilise these machines to supply the batter in large containers to the corporate market. The purchasing of second-hand equipment would significantly reduce the expense of this option; nevertheless at an estimated cost of £400 000, this option would still use up almost all of *Bevan Ltd*’s reserves.

THE SHAREHOLDERS’ MEETING

Jill was enthusiastic about both options but the other two shareholders were not so sure. “Such radical expansion plans are risky”, said Philip. “Is the company ready for such radical expansion plans?”, he added. “We need to consider all of our stakeholders”, said Jeffrey. Philip and Jeffrey would take some convincing.

APPENDIX 1

BUCKWHEAT

Common buckwheat (*Fagopyrum esculentum Moench*) is a broad-leafed herbaceous annual. It belongs to the family Polygonaceae, which is generally referred to as the buckwheat, rhubarb or sorrel family. However, because its seed structurally and chemically resembles cereal grains, buckwheat is usually handled and classed with cereals. Shown to have originated in the mountainous regions of southern China, buckwheat is produced in many parts of the world and has long been an important part of the human diet. Buckwheat has been grown in Canada and the USA for many years.

APPENDIX 2

HEALTH BENEFITS OF BUCKWHEAT

- Buckwheat is high in fibre.
- Buckwheat contains the eight essential amino acids.
- Buckwheat contains many minerals including: phosphorus, magnesium, iron, zinc, copper and manganese.
- Buckwheat lowers glucose levels and is beneficial for managing diabetes.
- Buckwheat has been found to lower blood pressure and reduce cholesterol.

APPENDIX 3

CAUSES AND CONSEQUENCES OF FAST FOOD SALES GROWTH

With today's hectic lifestyles, time-saving products are increasingly in demand. Perhaps one of the most obvious examples is fast food. The rate of growth in consumer expenditure on fast food has led most other segments of the food-away-from-home market for much of the last two decades.

Rising incomes, longer workdays, and a growing tendency for both spouses to hold full-time jobs are widely credited for the rise in away-from-home expenditures of all types, but fast food especially benefits from these trends.

APPENDIX 4

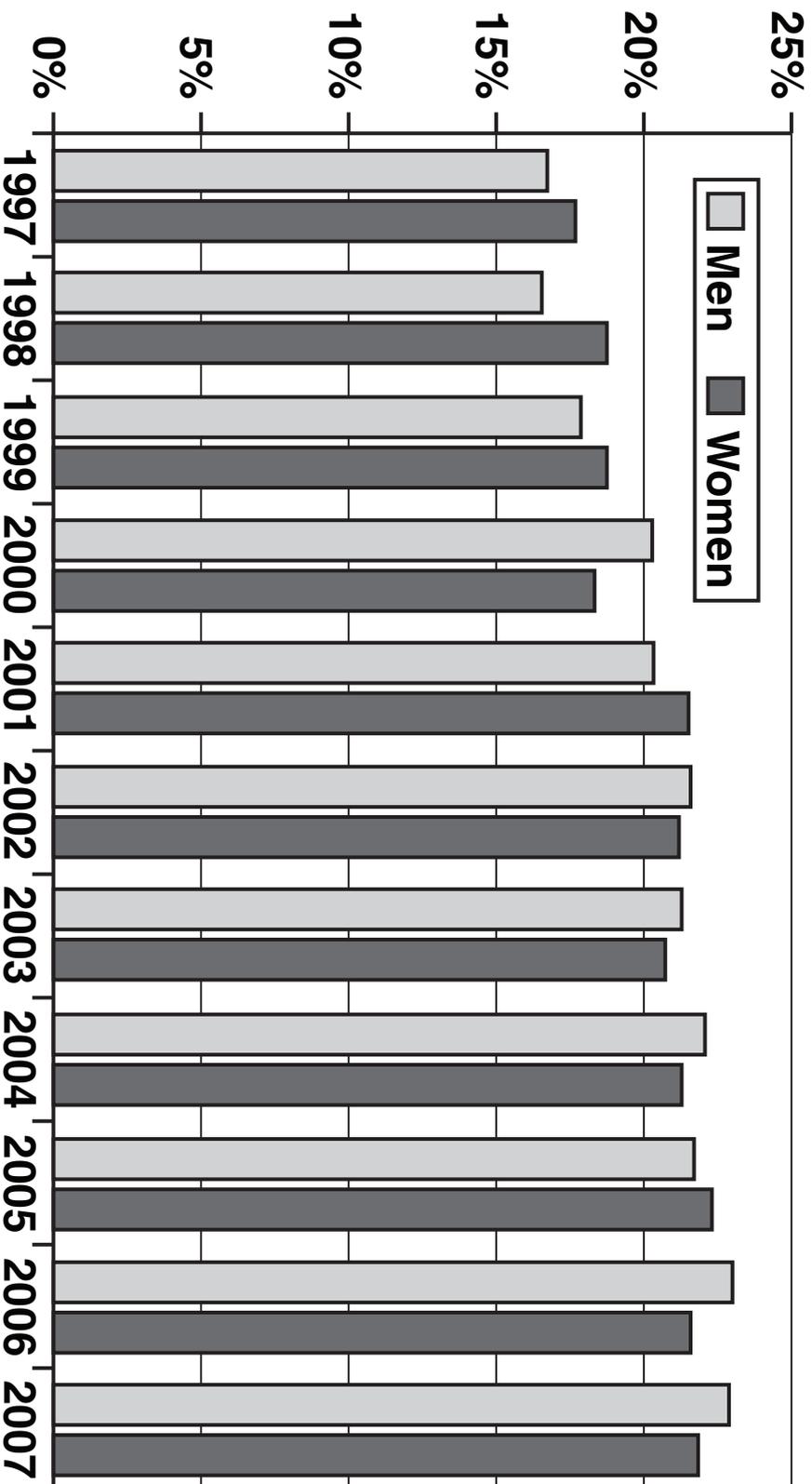
CHALLENGES IN THE UK FAST FOOD MARKET

More consumers are looking for convenience in their food purchases, while busier working lives have also benefited fast food sales. The opportunities to purchase fast food are also extending, with a wider range of outlets now serving sandwiches, snacks and hot food. Traditional high street sites have been joined by more outlets in transport terminals, by the roadside, in leisure venues and shopping centres. Standalone sites from the global fast food brands are also facing growing competition from sales in supermarkets, high street stores, convenience stores and petrol forecourts. Major obstacles to sales growth have been growing concerns about obesity and the negative media coverage of the fast food industry.

THE PREVALENCE OF OBESITY – ENGLAND

ALMOST A QUARTER OF WORKING-AGE PEOPLE ARE NOW OBESE. THIS IS SIMILAR TO FIVE YEARS AGO BUT MUCH HIGHER THAN A DECADE AGO.

Proportion of people aged 16 to retirement who are obese



Obesity prevalence among adults: by sex, England

APPENDIX 6

UNITED KINGDOM UNEMPLOYMENT RATE

