

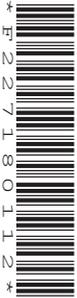
Wednesday 11 January 2012 – Afternoon

AS GCE APPLIED BUSINESS

F242/01/CS Understanding the Business Environment

CASE STUDY

Duration: 1 hour 30 minutes



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The Floating Lotus

The beginning

Carmen Chan was a casualty of the credit crunch. She was made redundant in the economic downturn of 2008 after working as a restaurant manager for a well-known chain of Chinese restaurants for the previous 15 years. Being in her early fifties with no family commitments, Carmen decided to take a break with her partner, Lee, along the scenic Worcester-Birmingham canal. It was during this trip that she had the idea of setting up a café on a narrow boat (to be called *The Floating Lotus*). This would allow them to combine work with leisure, a dream which most people could only contemplate. After all, there was hardly any point in saving her redundancy payment in the bank with interest rates at an all-time low. *The Floating Lotus* seemed to be the perfect solution for Carmen and Lee who had greatly enjoyed their canal cruise.

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Following an extensive search, they came across a suitable narrow boat for sale. Already fitted with tables and benches, it could accommodate 56 customers comfortably. There is a bar in the centre of the boat with fitted cabinets and shelving, a four-ring gas stove and a fridge. Although the furniture, fixtures and fittings are rather dated, the boat is fully functional as a café. Despite the state of the internal fixtures and fittings, Carmen and Lee went ahead and purchased this narrow boat. However, because both Carmen and Lee were novices to operating narrow boats, one of them had to take and pass the boatmasters' course before they could operate the boat themselves. This had not only increased the start-up costs, but had also meant that they could not start the business straightaway. This had been their first glimpse of the amount of red tape which they had to go through before they could even consider starting to trade. In order to protect the different stakeholders' interests, the government has imposed various legal requirements on users of the canal networks (see **Appendix 1**). The interests of different stakeholders in the waterways are listed in **Appendix 2**.

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Ownership

Carmen and Lee decided to set up the business formally as a partnership. A Deed of Partnership was drawn up, even though they had already agreed on the roles each would take, according to their respective strengths and weaknesses. *The Floating Lotus* went into operation three months later. Due to the high start-up costs, they had to initially operate the boat without making any internal improvements. Business was slow to begin with as they did not have a sufficient budget for marketing.

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The floating café

The Floating Lotus currently opens from 8am to 6pm. It targets local residents, tourists, shoppers and office workers in the centre of Birmingham. Carmen and Lee consider themselves lucky to have secured such an ideal mooring site in the hub of the city. Even though cash-flow is positive, *The Floating Lotus* is only just breaking even. The partners sometimes feel that they could work a little harder. Constrained by the state of the décor, rather than the quality of service, the sluggish sales revenue can, in part, be attributed to the prices they can charge. From their customer feedback, Carmen and Lee notice that there is an increasing demand for more extensive menus. This is borne out by statistics showing an increased demand for fast, casual dining (see **Appendix 3**). The average diner is looking for a more relaxed and faster service than traditional sit-down table service. Carmen is keen to explore the possibility of serving buffet style food, in addition to the current menu which consists mainly of soft drinks, beverages and snacks.

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The competition

A high number of all-day buffet style restaurants had opened a few years before the credit crunch. Many, indeed, not only survived the recession, but have benefited from it. Some of these restaurants are charging as little as £5 to eat as much as you like during lunchtime and £10 during the evening. Their success depends primarily on the high volume of customers passing through the door every day. Diners are advised to book a table beforehand or risk standing outside the restaurant in a long queue waiting to be seated. These queues have become a common sight, especially at weekends.

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Most of these restaurants serve either ethnic Chinese or Indian food and very often there is a good range of dishes from which to choose. However, due to the low prices charged, the quality of the ingredients is often low and the menu remains the same. These restaurants are often shabbily decorated and the service, once you are seated, non-existent. Some of these restaurants even impose a time constraint on their customers who are 'told', when they walk in, that they have 60 minutes to eat and no more. Carmen and Lee are surprised that these restaurants can retain any customers at all! 55

The future 60

Carmen's proposal

There is a lack of moderately priced restaurants in the immediate locality of *The Floating Lotus* (due to its central location). Carmen thinks that *The Floating Lotus* could benefit from extending its opening hours and becoming a buffet-style restaurant offering a menu with a difference. The restaurant's unique selling point, suggests Carmen, could be serving different menus every month using as much local produce as possible. Starting on the first day of each month, there would be a new 'ethnic theme' to encourage customers to visit at least once every month. This idea would, however, require the employment of three additional staff. 65

If this proposal were to go ahead, *The Floating Lotus* would need a total refurbishment in order to bring it up to the standard the average customer would expect of a 'good' restaurant. The existing furniture, fixtures and fittings would have to be replaced and a new modern kitchen fitted at the rear of the boat, together with an office. The office would be fitted with a new computer which would be used for marketing, online booking and book-keeping purposes. The bar would remain in the centre of the boat but, again, it would be redesigned. 70

Carmen's proposal would require major additional funding. The renovation works, new fixtures and fittings, new furniture and a new kitchen are estimated to cost in excess of £50 000. Carmen and Lee could sell their four bedroomed house in the suburbs and look for a smaller flat near the mooring. However, this would mean a total change in lifestyle and they would no longer be able to accommodate their family when they come to visit. Alternatively, Carmen and Lee could consider getting a bank loan. Above all, there would be no income while the boat was under renovation. Carmen and Lee have been advised that such refurbishment would take about three months. Carmen and Lee would have to make sure that they had enough money to live on, as well as being able to pay all the refurbishment costs. Would this be a risk too far? 75

Lee's proposal 85

Lee's vision for *The Floating Lotus* does not match that of Carmen. In order to maintain a good work-life balance, he has suggested that the business should stay as a café but that it should also offer Internet access, at an extra charge through the installation of six computers in the bow of the boat. Although Birmingham is not short of its share of Internet cafés, few are located so centrally. Besides, the unique venue of *The Floating Lotus* should also set it apart from its competitors (see Appendix 4). Lee has calculated that his proposal would increase the average spend per customer, without significantly increasing the running costs. 90

Carmen is concerned about their lack of the knowledge and IT skills needed to maintain an Internet café. In addition, space is one of the biggest constraints on a narrow boat. She finds it difficult to visualise having six computers in the bow. And, what about the wiring? She remembers the stringent rules and regulations imposed by the government which they had to observe when starting the business. As the more IT literate partner, Lee would have to go on training courses in order to keep himself up-to-date with the latest technology. However, this proposal would only require a moderate overdraft, and the computers could be installed overnight. 95

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Even though they have not been in business together that long, Carmen and Lee work well together and they have been able to trust each other's business acumen. Carmen has agreed to closely examine the cash-flow forecast which Lee has promised to draw up to support his proposal.

The decision

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Whichever proposal is chosen, Carmen and Lee foresee an increase in running costs and realise that with a bigger kitchen and an office at the rear of the boat, or Internet access in the bow of the boat, they would no longer be able to accommodate 56 customers. They estimate that *The Floating Lotus* would only be able to seat 40 customers at any one time. In addition, the boat is in desperate need of a new coat of paint, both internally and externally. Both of these factors are likely to have a tremendous impact on the break-even point of the business.

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Appendix 1

Licences and registrations

Before you launch your boat, you need to buy a licence (or registration). This allows you to travel around and to keep your boat on the waterways.

Moorings

You will need a permanent place to keep your boat – whether it is a fully serviced marina or simply a spot on the towpath.

You will not usually be issued with a licence unless you have a permanent mooring. However, if you have no ties (such as jobs or children at school), you can opt to travel the canals non-stop, never staying at the same place for more than a fortnight. British Waterways has a special set of guidelines for such boaters.

Insurance

You also need to arrange third party insurance for at least £1 000 000. This will safeguard the owner or person in charge of the boat from claims made against you for injury or damage. You may choose to take out a comprehensive policy to cover your own boat and crew.

Boat Safety Scheme (BSS)

The Boat Safety Scheme is like a boating version of the MOT. It sets standards for boats, their installations and components, which you must meet before obtaining a licence. The scheme is designed to minimise the risks of fires or explosions on boats.

The standards combine essential safety requirements and best safety practice advice. They include criteria for boat systems such as electrical installations, inboard/outboard engines, appliances, ventilation and fuels.

Appendix 2

Leisure Access and Activities

Boating – It is not necessary to own a boat to enjoy the delights of travelling along a canal. There are many hire boats and trip boats, including waterbus services. Public trips also operate from different locations along the canals. There are also hotel boats that regularly travel the canals and which provide full board for up to six passengers, which regularly travel the canals.

Are you Disabled? There are boats on the canals which provide facilities for people with a disability and make it possible for them to enjoy the pleasures of a canal excursion. Ramps and lifts make access easy, and on board there is sufficient space for wheelchair users.

Canoeing – It is also possible to travel on the canals by canoe, though you must either be a member of the British Canoe Union or obtain a permit from British Waterways which will also supply a copy of its code for users of unpowered craft. It contains practical advice to help you enjoy canoeing on the canals, safely and without upsetting other canal users. Always remember, canoes are difficult to see from larger boats so they are not allowed in locks or through tunnels.

Walking – The canal towpaths are an ideal place for walking. If you are accompanied by your dog, please take a pooper-scoop otherwise the towpaths can become unpleasant.

There are gates onto some canal banks which have been locked with the canal's handcuff lock for many years in an effort to reduce accidents to children. Keys are available from British Waterways.

Cycling – The towpaths are rarely a public Right of Way and should only be used by cyclists who have obtained a permit from British Waterways. If you do cycle along the towpaths always slow down for others, particularly around locks.

Fishing – With clean fresh water, the canals provide an excellent location for fishing. Besides permission from the relevant fishing club, it is essential to have a National Rivers Authority licence. These can be purchased at most angling shops.

If you use the canals for fishing, please follow the Waterways Code. These few simple rules, not just for fishermen but for all canal users, make the canals and towpaths a pleasanter place for everyone.

Appendix 3

Eating out market research data

Many respondents within our qualitative research eat out on a regular basis due to more choice being available to them. There is also a trend towards people eating out on a more casual basis, with growth in quick service restaurants or cafés growing faster than full service.

The following groups are eating out more:

- People in **higher social classes** and those living in London are more likely to eat out regularly, which may be the result of higher income levels, and accessibility/choice.
- **Younger** and **single** people are more likely to eat out regularly, potentially due to the availability of disposable income, an unwillingness to eat alone and a desire to socialise. These people expressed most interest during our research in finding healthy options when eating in restaurants, e.g. from noodle bars, soup and salad takeaways and sushi restaurants.
- Over one quarter of **people aged over 65** are also eating out on a frequent basis as they have time on their side. They want to enjoy themselves and have the disposable income to do so. Restaurants have been able to tailor their offering to appeal to this growing consumer segment using promotional techniques.
- The growth in the number of **women in employment** is having a major impact in the focus on convenience and eating out. Since 1971 the number of women in employment has grown by over 40%. There are now more than 13 million female employees compared to 9 million in 1971. The impact of needing to combine work with busy social lives means that many single women have little time for cooking and prefer the convenience and experience of eating out.

What do people value about eating out?

Our research found that people are eating out to satisfy **four key requirements**:

1. Trying something new and tasting new food and ingredients.
2. Going out for a treat, i.e. for special occasions.
3. Saving time and cutting out tasks that they do not enjoy (i.e. shopping, cooking and washing up).
4. Enjoying the experience of eating out, i.e. meeting new people.

Appendix 4

Industry Sector: Internet Café

Sector trends

What has been happening in the Internet café sector

Over a relatively short period of time the Internet has become an essential part of modern day living. The first Internet cafés were in a position to capitalise on the fact that, while there was growing interest in the Internet, many consumers did not have their own access to it either in their homes or in the workplace.

In the days of dial-up connections, when each Internet call was metered, consumers may have been suspicious of the costs involved and resisted having an Internet connection through their own home phone line and this benefited the Internet café sector. However, Internet service providers (ISPs) have continued to improve the level of service they offer and the majority of UK customers, both business and domestic, have switched to the much faster broadband connections now available. As well as increased domestic connection to the Internet, many people now have free Internet and email access in the workplace and this has considerably undermined the Internet café sector.

In response to this, the Internet café sector had to evolve. Today's café offers fast Internet connection and a range of other services in order to continue to attract custom. For example, some Internet cafés have set up gaming leagues and other social activities, while others may offer Internet lessons for beginners in the hope of attracting new customers – perhaps older people. Internet cafés are now increasingly used by groups of like-minded people as a community centre where old friends can be met and new ones made. In many areas they have become popular meeting places for foreigners who have settled in the UK, whether for a short visit or permanently.

Competition has also increased during recent years due to the growing number of coffee shops, hotels and even bars which offer customers WiFi access, sometimes even free of charge. The coffee shop chain Starbucks now offers WiFi access in hundreds of its outlets throughout the UK and recently announced that customers who sign up to the Starbucks reward scheme will enjoy completely free WiFi access.

An Internet café may focus heavily on the food and drink side in order to maximise sales income. In recent years the popularity of eating out has grown enormously and as a result there are now thousands of eating places in Britain offering a wide range of different types of cuisine at prices to suit all pockets. However, the sector is very competitive as barriers to entry are relatively low and, when demand is strong, many new cafés and restaurants open up.

Although the popularity of eating out is forecast to continue to increase, consumers are concerned to obtain good value for money and this is likely to keep prices under pressure. As a non-essential luxury, expenditure on eating out suffers during periods of recession, when consumers' available disposable income falls. The economic downturn during the late 2000s led to a reduction in the frequency of eating out and in the average spend.

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