

CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Level

BUSINESS STUDIES

9707/03

Paper 3 Case Study

May/June 2003

Additional Materials: Answer Booklet/Paper

1 hour 45 minutes

READ THESE INSTRUCTIONS FIRST

If you have been given an Answer Booklet, follow the instructions on the front cover of the Booklet.
Write your Centre number, candidate number and name on all the work you hand in.
Write in dark blue or black pen on both sides of the paper.
Do not use staples, paper clips, highlighters, glue or correction fluid.

Answer **all** questions.

At the end of the examination, fasten all your work securely together.

The number of marks is given in brackets [] at the end of each question or part question.

The businesses described in this question paper are entirely fictitious.

This document consists of 3 printed pages, 1 blank page and an insert.



Fast Food Franchise

Rashid and Shivani want to establish a business selling fast food with an “international theme”. They believe that it is possible to create a unique selling point for their business before competitors enter the market. The restaurant will sell a range of pizzas, hot dogs, hamburgers and similar foods, either to eat in or “to go” (takeaways).

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Rashid works in an insurance company but Shivani is a qualified chef. Her current job is with a top hotel in the capital city. It is well paid but she has always wanted to be in charge of her own future. She is dissatisfied with the relationships between the workforce and managers. Shivani’s experience of the industry tells her that restaurant staff are often poorly treated and not trusted by managers. Workers are often given strict orders with no explanations and no feedback when things go well.

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Rashid and Shivani consider two options for their business. Option 1 is to set up a completely new independent restaurant under their own name. The other option is to take out a franchise with a well known multi-national fast food business called “Fast Food Factory”. Shivani prefers complete independence. Rashid, however, argues that, despite legal restrictions imposed by the franchisor, he welcomes the support offered by this firm. Eventually, Shivani agrees to go along with this but she is not happy about the 10% of sales revenue “franchise fee” and the initial capital payment of \$5000 for the franchise licence.

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It is important to research the existing restaurants in the capital city to establish their product range and price levels. They do this by telephoning them, finding the numbers from the local directory. The response is quite good but when some managers realise what they might use the information for the telephone conversation is abruptly ended! Rashid asks his friends at work what they think of the “Fast Food Factory” idea. They are nearly all enthusiastic but they often say that the average meal price should be below about \$5. The country is experiencing an economic boom and this is encouraging people to eat out more often. Some economists fear that inflation might rise because of the boom.

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Eventually, Rashid and Shivani find a disused store room in the financial area of the city that could be converted into a restaurant. They need to finance their new business. They are both prepared to put in \$10000 each but this leaves \$40000 which needs to be financed. They are considering various options but Shivani thinks that a bank loan would be best. On seeing their bank manager they are disappointed with his response. Although he is prepared to lend some of the capital needed, it will have to be “secured” against Rashid’s house. The offer of the loan will also depend on much more accurate market research being undertaken. The manager also asks for a detailed cash flow forecast for the first 4 months’ trading.

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Operational and staff issues also need attention. The kitchen equipment will have to be purchased from abroad. Some of the specialist drinks will also be imported. Food stocks will be obtained from the foreign franchisor’s own suppliers. This is part of the franchise agreement.

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Staff have to be recruited. As the image of the business is to be aimed at young people, the owners want to recruit staff with some experience of the business but with lively and youthful personalities. Motivating these workers will be essential in order to create the right atmosphere in the restaurant. Rashid believes that if they

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are well paid they will always perform well. Shivani considers that good management/staff relations are not just dependent on pay levels.

Rashid needs to complete the cash flow forecast – he uses the figures and forecasts in Appendix A to help him. He does not really know why the bank needs this information but as he completes it he sees some real problems arising for the business if he is not careful. 50

Appendix A

Sales Revenue forecasts for first four months:

April \$20 000
 May \$30 000
 June \$40 000
 July \$40 000

90% of sales for cash – 10% on 1 month's credit to business customers

Capital injection and bank loan (assume both in April) \$60 000

Equipment purchases \$40 000 – paid in two stages: 50% in May and 50% in July

Food and drink costs – expected to be 50% of sales, paid for in the month of sale

Franchise fee – 10% of sales revenue, paid for in the month of sale

Labour costs including managers' salaries (forecast) \$7 000 per month

- (a) (i) Analyse the advantages and disadvantages to Rashid and Shivani of their decision to take out a franchise. [8]
- (ii) Discuss the likely impact of economic constraints on the future success of this business. [8]
- (b) Examine how Rashid and Shivani might try to establish good relations between management and workforce in their business. [10]
- (c) (i) Refer to the insert. Complete the cash flow forecast for this business for the first four months of trading. [8]
- (ii) Evaluate the usefulness of a cash flow forecast to Rashid and Shivani. [6]
- (d) (i) Suggest **two** reasons why the bank manager considered the market research undertaken by Rashid and Shivani to be inadequate. [2]
- (ii) Advise Rashid and Shivani how they might conduct further market research. [8]
- (e) To what extent would Just in Time be appropriate for the management of stocks in this business? [10]

