General Certificate of Education
June 2008
Advanced Subsidiary Examination

BUSINESS STUDIES **BUS2/3/PM**
Unit 2 and Unit 3

Case Study

To be distributed to candidates no sooner than Monday 3 March 2008

NOTICE TO CANDIDATES

You will be given **one** copy of this Case Study for use during your preparation for the examination, which you may annotate as you wish, but which you will **not** be allowed to take into the examination.

You will be provided with a clean copy of the Case Study, along with the question paper, for use in the examination.

You are advised to carry out your own research using this Case Study. It is the business concepts and ideas raised by the Case Study which should be researched.

Your teacher is encouraged to give assistance and advice as required.

Mobeen

Section A – The idea

Raj Patel had graduated from university with a degree in Food Technology. He had gained employment as a management trainee for a large food manufacturer. Despite achieving rapid promotion, Raj was becoming increasingly disillusioned with working for a large organisation and was searching for a new challenge. One day in December 2003, while travelling home from work after a long day, Raj was searching for somewhere to eat. Faced with the usual choice of burger bars, fried chicken outlets and pizza takeaways, Raj had a flash of inspiration – 'surely there must be a gap in the market for an ethnic fast-food restaurant based on totally fresh organic ingredients?' It should offer Indian, Mexican and Thai varieties of burgers, using natural herbs and spices, each of which would be prepared and cooked to order.

Section B – Teething problems

The next day, Raj contacted his sister Suki. Suki had a good job in the insurance industry, but, like Raj, she was also looking for a new challenge. Raj explained his idea to Suki and proposed that they start up the business together. Suki was initially reluctant, but after conducting some secondary research in her local library (**Table 1**), she recognised the potential of this venture.

After trying out some of their recipes on family and friends, which received an enthusiastic response, Raj and Suki were convinced that they were on to a winner.

Table 1: Sales forecast of the UK fast-food market, at current prices, 2005 – 2009

	2005 £m	**2006 £m**	**2007 £m**	**2008 £m**	**2009 £m**
Burgers	2 306	2 403	2 490	2 332	2 304
Ethnic takeaway	1 671	1 744	1 814	1 871	1 940

Source: Mintel

The next step was to put together a business plan and to raise the necessary £300 000 that they estimated was needed to start up the business. Raj and Suki raised £100 000 each by selling their flats and moving back home with their parents. They obtained a bank loan for the remaining £100 000. The business was set up as a private limited company with Raj and Suki owning 50 % of the shares each. It was to be called *Mobeen*, which was their mother's name, in honour of some of the recipes she had given them.

A key decision was to find a suitable location for the fast-food restaurant. After looking at several sites, they eventually found one in Tottenham, North London, which fitted their required criteria:

- within their budget
- situated on a street with lots of passing trade
- other fast-food outlets located nearby.

A five-year lease was agreed with the landlord, and Raj and Suki began planning for the grand opening. Unfortunately, their lack of experience led to delay and further expense.

- The refurbishment of the premises took longer than expected and exceeded their budget.
- Most of the equipment bought was second-hand, but this proved to be a false economy as many items did not function properly.
- The council would not allow them to open until they had obtained a licence to sell food.
- Raj and Suki needed to ensure that staff were trained in food hygiene.

Once these issues had been resolved, Raj and Suki had a trial run but some of the local residents complained to the council regarding the smoke and smell. This resulted in the business having to purchase an expensive ventilation system.

There were also problems with the landlord who claimed that Raj and Suki had told him that the business would be a café rather than a fast-food establishment. He allowed them to continue only in return for a 50% rent rise.

The business eventually opened in the summer of 2004. The first day of trading was a great success and generated £1000 in sales. Unfortunately, due to the rent rise, this figure represented only their daily break-even target. After the initial interest, sales declined and two weeks later the business was averaging only £500 per day. This was due to three reasons.

- The local competition had reacted aggressively by cutting prices and increasing spending on promotion.
- Many customers had complained of the slow service.
- *Mobeen* preferred to use local suppliers as a way of supporting the community. Unfortunately, this sometimes led to difficulties in obtaining ingredients, resulting in the business being unable to offer its complete menu.

With the business facing significant cash flow problems, Raj and Suki realised that something had to be done quickly. Although he charged a high fee, they decided to employ Martin Chivers, a management consultant who specialised in giving advice to fast-food companies. Martin observed the business before making the following observations.

"Basically your concept is good, but the key weakness is the length of time that customers have to wait. Because the food is cooked to order, customers are having to wait at least 15 minutes before they receive their food – that is a lifetime in the fast-food industry. You need to get your kitchen organised; there is a lack of leadership and communication. Consequently, nobody seems to know what they are doing. I recommend that you employ a Head Chef with more experience."

Raj had appointed his cousin, Asif, as Head Chef and had also employed two part-time staff. However, Raj and Suki now realised that they needed to employ a new Head Chef. Reluctantly, Asif was dismissed. This time a job description and a person specification were drawn up and an advert placed in a specialist catering magazine. This attracted many suitable candidates, from whom Ricky Stephenson was selected. Ricky had several years' experience working for a variety of fast-food establishments and he made an immediate impact. A proper staff training programme was established and Ricky set up a batch production system in which the products were pre-prepared, thereby reducing the cooking time. His authoritarian, no-nonsense approach transformed the kitchen, and the speed of customer service improved dramatically. This, combined with some innovative recipes and clever marketing, resulted in a growth in customer numbers.

Section C – An offer too good to refuse?

By the autumn of 2005, *Mobeen* was an established business. A second restaurant in Chelsea, West London, had recently opened and the company was beginning to make a profit. Raj was pleased that the business appeared to have overcome its initial problems, but he was becoming impatient that it lacked the finance to expand at a faster rate. Little did he realise that a possible solution to his problems would soon appear.

In November 2005, Raj was approached by a businessman called Mark Coles who owned a company called MC Holdings. Mark explained that he had recently sold a successful chain of pizza restaurants to an American multinational for a significant profit. He was now looking to invest in innovative small restaurants which were looking to expand. Mark had just acquired a small chain of 'fast-food' Thai restaurants aimed at busy urban young professionals, which he intended to develop further. He was looking for another project in order to diversify his restaurant portfolio. Mark told Raj that he was impressed by the *Mobeen* concept and believed it had the potential to become a nationwide success. "I can provide you with the extra finance and expertise to take this business further, in return I would like a 51% share." Raj told Mark that he would have to discuss the offer with his sister but promised to let him know their decision within the next few days.

Suki was initially cautious. "Why are you in such a hurry to expand? The business is beginning to make a profit and it belongs entirely to us. Why take this risk?" However, Raj was convinced that this could be a once-in-a-lifetime opportunity and eventually persuaded Suki to accept the offer.

Section D – The new strategy

At the first meeting after taking control, Mark explained that his aim was for *Mobeen* to eventually become a national chain. Specifically, the objectives for the business would be to open:

- at least five new fast-food restaurants in the following year
- another 10 to 15 fast-food restaurants in each of the following three years.

Initially, the restaurants would be established in London and the South East, but the intention would be to also open in most of the major cities in the UK. The key elements of the strategy would consist of the following.

- To target the market of busy young urban professionals interested in trying out new restaurants.
- To locate the restaurants in trendy, affluent areas.
- To create an innovative, constantly changing menu and to offer high quality food.
- To provide fast and efficient service.
- To create an image and products based on healthy organic food.

Each restaurant would employ a full-time manager and six part-time staff. To ensure uniformity and consistency, the layout and menu of each restaurant would be identical. All key decisions would be made centrally at head office.

Although the business would be operating in a niche market, the actual running of the restaurants would employ the same principles as those used by the mass market operators such as McDonald's and Burger King. Specifically, each employee would specialise in a single repetitive task and the production process would become more capital intensive, enabling the business to cut costs and to speed up waiting times.

Because of the perishable nature of the food, effective stock control would be vital. The suppliers of the organic ingredients would be expected to deliver sufficient quantities daily on a just-in-time basis. Accurate sales forecasts would be needed to ensure that the correct amounts of stock were ordered. A new IT system would be implemented whose purpose would be to monitor sales and stock levels. An electronic link with each of their suppliers would automatically inform them each time a delivery was required.

A strict quality control system would be implemented, with a team of inspectors making regular visits to each restaurant. They would rate each restaurant in terms of hygiene, food quality and customer service. Monthly league tables would be published which would compare each restaurant in terms of sales, quality and customer satisfaction ratings, with bonuses awarded to the best performing outlet.

Mark explained how the restaurants would operate, "A customer enters, sits at a table and looks at the menu. He or she then goes up to the counter, places the order, pays for it and is served the drinks. The customer then returns to the table and within five to ten minutes a waiter brings the order. Our customers are busy people who are looking for a quick but satisfying meal at lunchtime and/or before they go out for the evening. Each restaurant must aim to generate a rapid throughput of customers and achieve high levels of capacity utilisation, especially as the rental costs will be expensive due to their attractive locations."

Mark then concluded, "I believe that this business has a key USP of offering good quality, healthy, organic food and fast service which we need to exploit before our competitors copy us. We need to move quickly on this; I have arranged a meeting next week with my bankers to discuss raising the finance needed for the expansion."

At the end of the meeting, Raj and Suki felt overwhelmed but ultimately convinced by the strength of Mark's vision. Suki, in particular, felt that events were no longer within her control, but Raj was still convinced that Mark's experience and contacts were vital if the business was to succeed.

Section E – A step too far?

Eighteen months later, Suki had to admit that her initial misgivings had been proved wrong. *Mobeen* had become a successful business. A further five restaurants had opened in London in 2006, followed by ten more in the South East. Plans were now being drawn up to open another 15 restaurants in major towns and cities across the UK.

The company's head office was located in central London and its organisational structure had evolved as the business had expanded. There were now specialist departments for Marketing, Finance, Operations and HRM, whilst the Board of Directors consisted of Mark, Raj and Suki. Nominally, Suki was in charge of HRM, Raj of Operations and Mark of Marketing and Finance. In reality, all of the major decisions were made by Mark, which was a cause of constant frustration to Suki, especially as Raj would rarely take her side in any arguments.

In the summer of 2007, *Mobeen* encountered a potential crisis. A journalist working for Channel 4 News had interviewed a disgruntled employee and produced a report on the operations at the Chelsea restaurant. It claimed that some of the ingredients used were not organic and it also highlighted unhygienic working conditions in the kitchen. Furthermore, there were allegations that the staff received no training in health and safety, which had resulted in a number of injuries, and that they were often forced to work unpaid overtime. Consequently, many of the employees had decided to leave.

The report received media attention resulting in customers deciding to eat elsewhere. Worryingly, as a result of this, capacity utilisation levels in most of the restaurants fell from the usual 80% to well below 50 %.

In response to the report, Suki interviewed the Manager of the company's prestigious restaurant in Chelsea, West London. For such an important restaurant, Mark Coles had personally insisted on selecting the Manager who personified the culture that he was trying to create within the business – authoritarian and impersonal, with a clear focus on efficiency. When Suki raised the issue of rising numbers of employees leaving, she was surprised by the Manager's hostile response. "Don't blame me, it's the staff I am having to employ that is the problem. Because *Mobeen* pays staff only the minimum wage, plus the fact that Chelsea is an affluent area, the only people I can attract tend to be foreign language students who are in the country for only a few months before they go back home."

Suki then visited the original restaurant in Tottenham. On a number of occasions, Mark had tried to close this restaurant because, in his opinion, "Its location does not match the image I am trying to create for the business." However, in a rare case of unity, Raj had backed Suki's stance in keeping the restaurant open and Mark had grudgingly backed down. This had proved to be the right decision as the restaurant was consistently one of the best performing.

When Suki asked the Tottenham Restaurant Manager how she managed to retain her staffing levels, she offered the following explanation, "My policy is to recruit mainly 16 to 19 year old students from the local schools' sixth forms and FE colleges. I know that most of them will be in education for the next two years. Generally, they are reliable, hard working and enthusiastic. I know it's not company policy, but I use job rotation so that they can learn different jobs. We also have kaizen groups to discuss improvements. All my staff are going on a food hygiene course soon as a result of a suggestion from last week's kaizen group meeting. I believe that this democratic approach works. The only problem I'm now facing is that the competition are finding out how good my staff are. Only last week one of my best workers was poached by the local McDonald's who offered him an Assistant Manager position. I think that this is morally wrong, but there is nothing I can do about it."

Suki was convinced that the Tottenham Restaurant Manager's policy was the way forward to solve what could become a major problem for the business. She was determined to raise this at the next Board meeting.

Section F – Decision time

At the Board meeting to discuss how to respond to the report, Raj was the first to speak. "From an operations perspective, a major problem is finding suppliers who can provide the just-in-time service we require as the business expands. We have experienced teething problems with the new IT system resulting in some missed deliveries. Furthermore, organic ingredients are still in fairly short supply, especially now that the supermarkets are selling more. It could well be the case that the supplier to the Chelsea restaurant couldn't cope and sent non-organic produce rather than lose our order."

Suki added, "We are also finding it difficult to recruit and retain good workers and I believe that this is due to the nature of the jobs that they have to do and the way that they are treated by the managers. We need to make the work more interesting and encourage our managers to involve the staff more."

After listening to these arguments, Mark responded, "I have to disagree with you both. As far as I'm concerned the problems at the Chelsea restaurant are due to its poor staff and the supplier. I propose that we sack the Manager and the staff immediately and inform the supplier that its contract will be terminated next month. We will issue a press release blaming the supplier and then launch a PR campaign to reassure our customers. This will all blow over in the next couple of weeks."

Mark pressed on. "I believe that this experience is a useful warning for us. During my time in business, one of the most important lessons I have learnt is the importance of constantly looking ahead. I believe that it could be dangerous for the business to be over-reliant on the UK market. Only last week, the Bank of England was making worrying comments regarding signs of rising inflation and the need for possible corrective action. Also, the Health Secretary announced an ongoing problem with the levels of obesity in society – there could well be a backlash against fast-food restaurants. We need to seriously consider expanding into Europe. I propose that we should open restaurants in Paris, Amsterdam and Barcelona." He referred them to the economic forecasts below (**Table 2**).

Table 2: Economic forecast for the Eurozone 2008 – 2010

	Interest rates %	**Annual real GDP growth %**	**Annual inflation %**	**Unemployment %**	**Euros to the £**
2008	4.25	2.50	2.1	7.1	1.5
2009	4.00	2.65	2.0	6.5	1.7
2010	4.00	2.75	2.0	6.2	1.6

Raj took the opportunity to interject. "How can we afford this venture? We have already borrowed significantly to finance our current UK expansion plans. I know that we are making good profits but how confident are you that the banks will lend us more money?"

"There will be no need to borrow," replied Mark. "I'm confident that our impressive track record will attract potential shareholders. We can raise enough share capital to finance our European venture. I recommend that we sell a further 20%."

Suki could no longer control her temper, "I cannot agree to this proposal. Before we consider anything else, our priority must be to solve our current staffing problems. We need to become a more socially responsible business, particularly in the way that we treat our employees and suppliers. Good business is not just about making money."

Mark then concluded the meeting, "As far as I'm concerned, the current success of *Mobeen* has resulted from my drive and ambition. Thanks to me, you are now very wealthy. As the majority shareholder, I insist that you accept my proposal."

Raj and Suki agreed to meet later that day to decide their future. Mark had certainly enabled them to grow the business to a size far greater than they could ever have imagined, but had they bitten off more than they could chew?

END OF CASE STUDY