

**ADVANCED GCE
APPLIED BUSINESS**

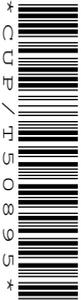
Unit 9: Strategic Decision-Making

PRE-RELEASE CASE STUDY

JANUARY 2008

To be opened on receipt

F248/CS



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.

Wid Fiyah

Background

Spencer Marshall has been producing hot and spicy barbecue sauce ever since his mother taught him a 'secret recipe' 20 years ago. Initially, Spencer made the sauce for his friends and family whenever there was a summer party, but around 15 years ago he started selling to anyone who was interested. In those days, the scale of the operation was so small that Spencer simply produced the sauce at home and sold it for cash, without any attention to food safety standards. It was at about that time that he named his hot, spicy sauce *Wid Fiyah*. 5

Growth

During the late 1990s, sales of *Wid Fiyah* really took off. As Spencer adapted the recipe, he found that people liked his sauce for its freshness, lack of preservatives, fiery flavour and it was a remarkably tasty accompaniment to burgers, sausages, salads and more. Indeed, in his local area of the East Midlands there was nothing quite like it on the market. In 2001 demand began to exceed supply and Spencer realised that making the sauce was rapidly becoming his full time job – and very lucrative it was too. As sales increased, Spencer realised he would have to enlarge and formalise his business operation. 10

Taking on a friend, Mike Terry, as a business partner, the two of them set about 'professionally' producing and selling *Wid Fiyah* on a larger scale. They made the effort to advertise in local newspapers and even set up a website. By 2005 the partnership was producing batches of 100 pots of sauce a time in Mike's brother's restaurant kitchen. They could just about turn out two such batches a day. Spencer tended to do the 'cooking' and 'bottling', while Mike spent most of his days on the road, delivering pots of *Wid Fiyah* to private customers, sandwich bars and burger stalls – it was certainly no longer just a summer product. Each pot usually sold at about £1.50. They found that sales of the sauce seemed to show a correlation with national economic growth trends (**see Appendix 1**). 15 20

The year 2005 nearly broke them in terms of effort as annual sales were hitting 50 000 pots – an astonishing amount for such a small 'cottage industry'. The partners clearly needed more help, which did not take long to find. Spencer thought that they were doing the work of about five people, so they agreed to take on three friends as part-time employees on hourly rates. 25

For the next two years demand levelled out and the business, now called *Wid Fiyah* after the product, operated without any problems. Spencer and Mike's attitude to staffing was very laid back. The three employees could work, more or less, the hours they wished. The work was rotated around so that no one got bored and the teamwork and working atmosphere made it a very pleasant place to work. Indeed, labour turnover in 2006 and 2007 was zero and absenteeism pretty much non-existent too. Only when Spencer got hold of some productivity data from much larger firms in the processed food industry did he begin to think that they were underperforming. The data he read indicated that *Wid Fiyah's* productivity was dismal and wastage rates astronomic. Although everyone was happy and they had enough customers, Spencer was convinced that they could do far more. The operation, now that they had staff, was scarcely profitable. Spencer had a look at his rudimentary Gantt Chart (**see Fig. 1**) and wondered where they were going wrong. From being a provider of 'pocket money' in Spencer's life, it had become his full-time work, his business, and he wanted big things. 30 35

Option Two

The Managing Director of A Very English Mustard Ltd (AVEML), an old and rather failing mustard producer, telephoned to say that it admired what *Wid Fiyah* had achieved and had an offer. AVEML wanted to merge with *Wid Fiyah* which could move into AVEML's huge premises, 60 miles away. AVEML would benefit from the growing brand name of *Wid Fiyah*, while *Wid Fiyah* could use its considerable semi-automated production facilities. Together, they would be one large private limited company which would have access to a wider market with vast sales potential for both *Wid Fiyah's* product and, hopefully, mustard. 60

The Decision

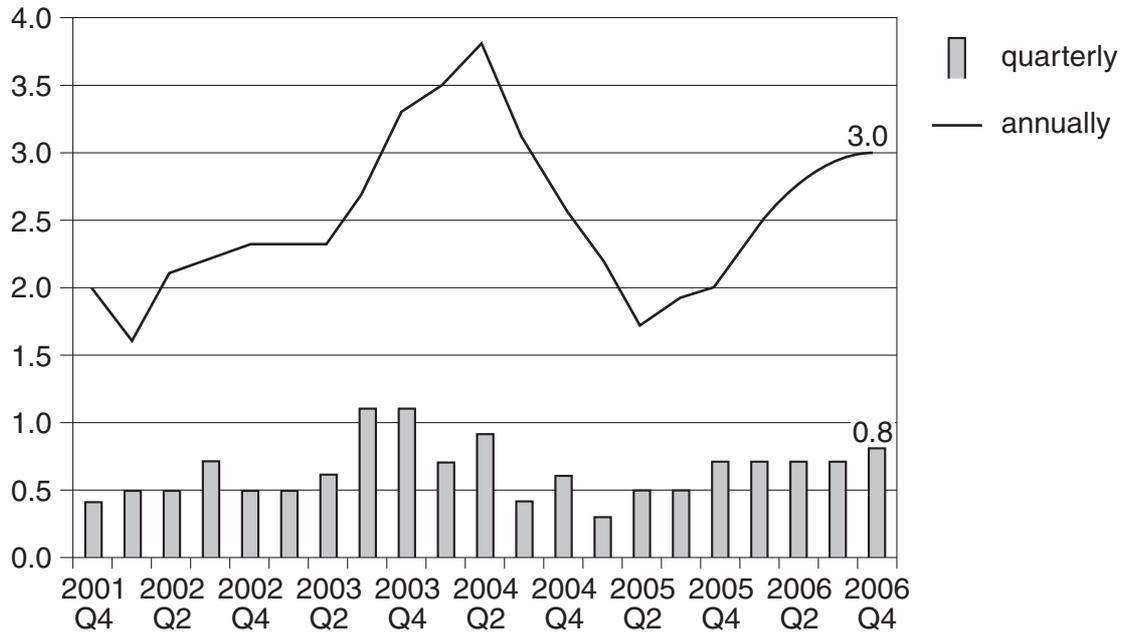
Essentially, Spencer and Mike had **three** options which were to: 65

- stay as they are, producing in the restaurant kitchen, and grow organically (**Option Three**);
- give up a large stake in the business for a big factory (**Option One**);
- team up with a larger but uninspiring mustard producer (**Option Two**).

Whichever option was chosen, Spencer and Mike would have to consider staffing (recruitment? redundancies?), training, motivation, changes in production scale and method, finance, sales and marketing, ownership, transportation, suppliers and much more. It was frightening. Spencer was keen for growth, but **Options One and Two** seemed a step too far, although Mike had read an article in a trade magazine about the future of spicy foods (**see Appendix 4**). If they turned down both offers they could grow steadily anyway – but they would still have to rent bigger premises soon (**see Appendix 5**). Were they really ready for all this? Spencer and Mike agreed to come to a decision by mid January 2008. 75

Appendix 1

GDP Growth – real GDP quarterly growth



Source: Office for National Statistics, www.statistics.gov.uk

Appendix 2

Snacking

As consumers live increasingly busy lives and eat out or on the run, many are using the home as a sanctuary to escape the pressures of their hectic lives. *Trends in Staying In, 2003*, examines consumers' behaviour at home in the evening and the impact this has on food, drink and personal care consumption, across the US and Europe. The frequency of in-home snacking is increasing, despite a decline in the frequency of staying in, with opportunities to target snacking during a variety of in-home activities. Food spend on at-home snacking will grow at 3.4% in the US and 2.8% in Europe between 2002 and 2007 driven by snacking during passive activities, such as watching TV. The number of at-home dinner occasions will decline faster than the number of staying-in occasions as mealtime fragmentation continues apace.

Extract from *Trends in Staying In*, Datamonitor, June 2003

Appendix 3

Tesco's market share still rising

Tesco has put further distance between itself and its competitors over the past three months, according to the industry's leading sales survey.

Its share of UK supermarket sales rose to 30.6% in the 12 weeks to 29 January 2007, up from 30.5% in the previous quarter, according to market research firm TNS. Tesco has had a successful year – its market share up from 29% a year ago. The latest figures also revealed that Sainsbury's is continuing to make up ground on second-placed Asda.

Still dominant

Sainsbury's market share rose from 16.2% to 16.3% over the period, while Asda's inched down from 16.7% to 16.6%. Sainsbury's fortunes have improved significantly over the past year under the leadership of Chief Executive, Justin King.

A year ago Sainsbury's was lagging its rival – owned by the US retailer Wal-Mart – by a full 1%. "Whilst Tesco remains dominant there are signs that it is experiencing increased competition," said Edward Garner, a TNS spokesman. "It is still growing, but the year-on-year share increase is below the average we were seeing last year." Morrison's market share fell from 11.3% to 11.1% over the period, having begun 2005 at 12.4%. The firm has endured a difficult time since its purchase of Safeway in 2004 and has been squeezed by its rivals.

SUPERMARKET SHARE

Tesco: 30.6%
 Asda: 16.6%
 Sainsbury's: 16.3%
 Morrison's: 11.1%
 Somerfield: 5.4%
 Waitrose: 3.7%
 Iceland: 1.8%
Source: TNS

Adapted from BBC News at <http://news.bbc.co.uk>, 8 February 2006

Appendix 4

Summer Sizzler for 2008 – Barbecues are in

Manufacturers of barbecue equipment are forecasting a bonanza summer. Already a heat wave is predicted with an increase in sales of anything related to eating outside, be it food, drink or barbecue utensils. This is good news for many food processing firms, such as Heinz, which manufacture sauces and relish. Some of this is the result of outdoor parties around the time of football's World Cup and European Championships. During these events in 2006 and 2004, demand for spicy dips, nachos and lager was unprecedented. Even good old English mustard is set to make a comeback. This follows on from recent data published regarding the significant increase in the sales of Caribbean food and the condiments which go with it – maybe a spin off from cricket's World Cup in 2007 hosted in the West Indies.

Source: Eat Outdoors

Appendix 5**Industrial rents set to soar**

It is a worrying time for firms which rent industrial premises. The UK has proved very popular recently for foreign firms looking for a sound base in the European Union (EU). While some locations have spare capacity, much of the Midlands – East and West – has only very poor and run down factory space left on the market. The rest has been snapped up in a feeding frenzy by powerful corporations seeking expansion. This has pushed up rents significantly and there looks like little respite.

Source: Industrial Monitor

Copyright Acknowledgements:

Appendix 1	Source: Office for National Statistics, www.statistics.gov.uk . Crown copyright material is reproduced with the permission of the Controller of HMSO and the Queen's Printer for Scotland.
Appendix 2	Extract from <i>Trends in Saying In</i> , Datamonitor, June 2003, www.datamonitor.com
Appendix 3 text	Adapted from <i>Tesco's market share still rising</i> , 8 February 2006 © BBC News, http://news.bbc.co.uk
Appendix 3 data	Source: TNS, Taylor Nelson Sofres, www.tns-global.com
Appendix 4	Source: Eat Outdoors
Appendix 5	Source: Industrial Monitor

Permission to reproduce items where third-party owned material protected by copyright is included has been sought and cleared where possible. Every reasonable effort has been made by the publisher (OCR) to trace copyright holders, but if any items requiring clearance have unwittingly been included, the publisher will be pleased to make amends at the earliest possible opportunity.

OCR is part of the Cambridge Assessment Group. Cambridge Assessment is the brand name of University of Cambridge Local Examinations Syndicate (UCLES), which is itself a department of the University of Cambridge.