



ADVANCED SUBSIDIARY GCE
BUSINESS STUDIES
Business Functions

F292/CS

CASE STUDY

Thursday 21 May 2009
Morning

Duration: 2 hours



INSTRUCTIONS TO CANDIDATES

- This is a clean copy of the case study which you should already have seen.
- You should refer to it when answering the examination questions which are printed in a separate booklet.
- You may **not** take your previous copy of the case study into the examination.
- You may **not** take notes into the examination.

INFORMATION FOR CANDIDATES

- This document consists of **8** pages. Any blank pages are indicated.

Hoiles Crisps Ltd (HCL)

Hoiles Crisps Ltd (HCL) is based near Diss in Norfolk and has a growing reputation in the premium snack market. Begun by potato farmer, Richard Hoiles, in 2004, the company now produces a range of top quality 'hand-fried' gourmet crisps. It supplies over 6,000 independent retailers, including high class stores, farm shops, health food shops, delicatessens and 'gastropubs' around the UK. Richard is Managing Director of HCL and owns 80% of the business – the rest is owned by a private equity firm. 5

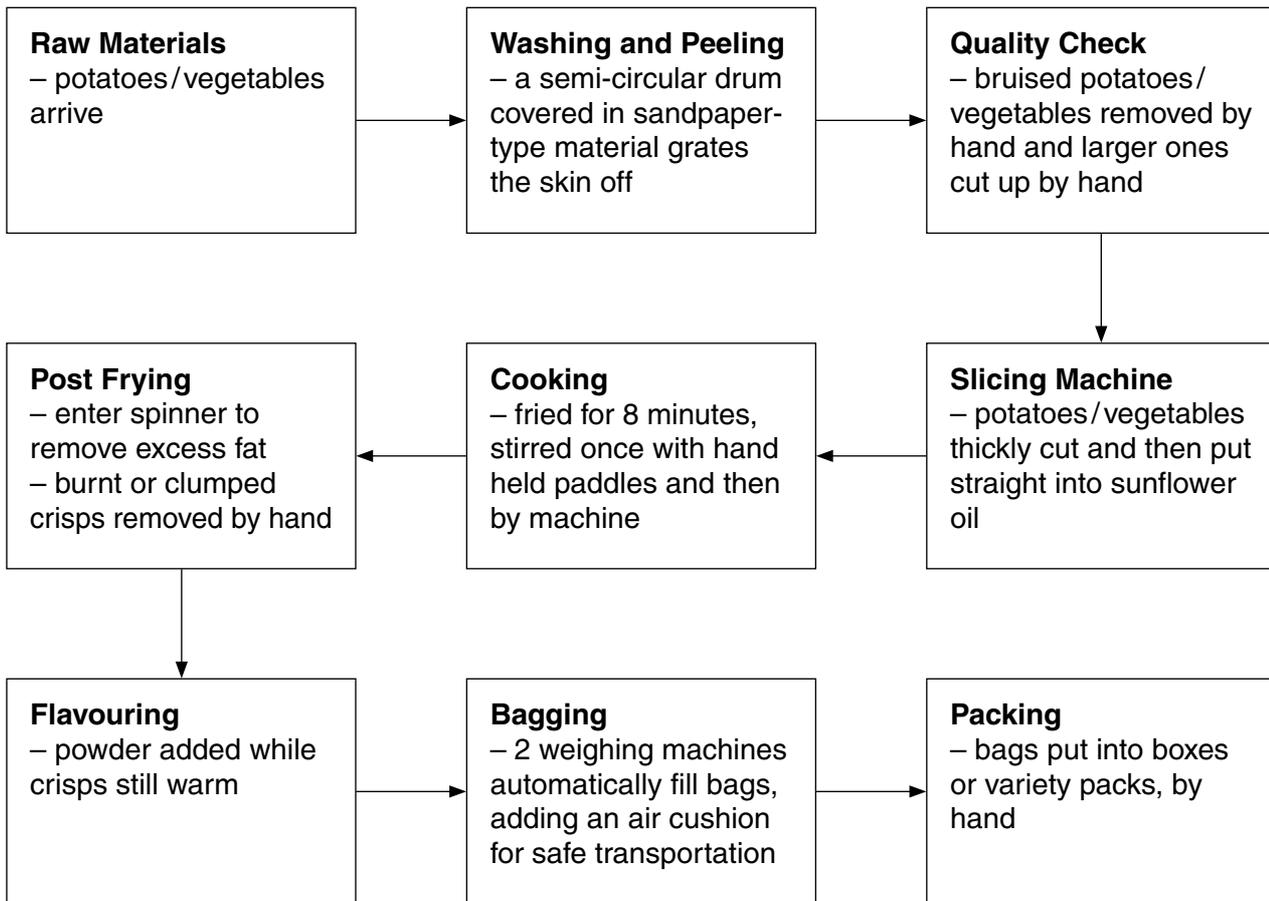
The business grew from a need to add value to the farm's existing potato crop. The farm had been a major potato grower for the big supermarkets for over 15 years, farming 900 acres. However, the business came under increasing price pressure and with a basic commodity, that had no branding potential, it was hard to compete. There was also huge uncertainty caused by the fluctuations in crop prices. The task that Richard faced was how to meet the challenges of price pressure and to keep growing top quality, established potato varieties. Richard carried out market research on hand-made premium products, bought a second-hand chip fryer and had a go at slicing and cooking his own potato crisps. To his surprise, the results were delicious and Hoiles Crisps was born. 10

Richard borrowed money from the bank and built a factory on his farm. In its second year, HCL saw revenue growth of 70% and with continued year on year growth, the business has been able to expand its range of products, production facilities and workforce annually. It now produces 10 different flavours of potato crisps. HCL also produces crisps made from carrots, parsnips and beetroot, part of the 'better for you' snack food sector. HCL's products regularly win gold and silver medals at the UK Great Taste Awards and the company has recently won Outstanding Small Business of the year and the Great British Food award. 15 20

The crisps sector is the largest segment of the UK snack food market. Nearly 9 billion packets of crisps are sold annually, which works out at 150 packets per person per year, more than the rest of Europe put together. HCL has less than 0.5% of this market but has more than a 10% share of the fast growing 'better for you' niche of the snack food sector. 25

Currently, HCL grows over 250 acres of older variety potatoes renowned for their taste (although yields are lower) for processing into crisps. HCL also buys in other raw materials. A key element in the production process is the fact that the potatoes are grown on the farm next to the factory, eliminating lengthy journeys. It is not unusual for the potatoes to be growing in the field in the morning and be turned into crisps by the afternoon. Unlike the larger mass producers of crisps, which have a non-stop production line, HCL produces its crisps in small production runs (see Figure 1.) A production run is usually made up of 60kg of potatoes. This leads to greater variety in the shape and thickness of the crisps, which adds to the appeal of the product. 30

Figure 1 – Outline of HCL's current production process



Typically, different flavours are produced each day. Monday and Tuesday are mainly 'Ready Salted' and 'Unflavoured'. Wednesday is dedicated to 'Cheese and Red Onion'. Thursday sees 'Sea Salt and Cider Vinegar' as its main flavour, while Friday and Saturday morning are given over to production of speciality or limited edition flavours and the non-potato ranges. However, with the recent growth in sales, the current factory is now close to operating at 100% capacity. Richard is, therefore, building a second production line on the farm, on a site close to the current factory. The proposal at the moment is to have the production line in the new factory dedicated to producing the 'Ready Salted' and 'Unflavoured' potato crisp varieties. This would allow the existing factory to produce more of the non-potato crisps, as that market is expected to grow rapidly over the next few years.

Richard believes that one of the reasons why the non-potato crisps are proving so popular is the growing health concerns about the consumption of snack foods. HCL's products have a much more wholesome image than its mainstream competitors and so Richard is less worried about health issues. However, the industry as a whole has worked hard to respond to pressure in the media (see Appendix 1) by removing saturated fats from the products. The market leader has also built a new multi-million pound factory to produce a baked crisp that has 70% less fat than a typical fried crisp.

HCL has never really had a clear pricing policy for its products. This is something that Marketing and Sales Manager, Sam Ziegler, finds unusual. His experience, in the confectionery industry, has led him to believe that getting the price right is much more important to gaining customer support than any health or promotional issues. Before Sam was appointed last year, Richard had always done the necessary marketing work and he is going to continue to 'help out' Sam for the foreseeable future.

Sam is spending his first few weeks in the business analysing the sales data for the last few months (see Table 1). In particular, he wants to see the impact of recent price changes with the long-term aim of ensuring that the expected growth in revenue from non-potato crisps is achieved. 55

Table 1 – Excerpt from HCL's sales data

Product	Unit size	January 2009		February 2009		March 2009	
		Price* (£)	Quantity	Price* (£)	Quantity	Price* (£)	Quantity
Potato crisps							
Ready Salted	15 × 200g	22.48	7,100	22.00	7,300	22.22	7,154
Unflavoured	35 × 50g	20.00	2,200	20.00	2,200	20.50	2,167
Cheese and Red Onion	35 × 50g	19.20	3,148	19.50	3,200	20.00	3,305
Non-potato crisps							
Beetroot	24 × 40g	22.00	748	21.30	761	20.30	782
Parsnip	24 × 40g	21.05	890	20.60	900	21.63	891
Mixed Vegetable	15 × 150g	32.48	1,200	32.48	1,463	33.50	1,312

* Price paid by retailer, per box

At present, although the production process is automated, it uses only a partial system of sensors. This stops machinery if stock runs out or if there is a problem with the machinery. For example, if the flavouring machine needs refilling, the sensors will alert the workers and stop the whole production process. There is, however, a better system available that would place sensors at every stage of the production line and a computer would manage the system. It is the intention to install this system in the new factory. This would make the line a 'pull system', so that every stage of the process would be controlled by the needs of the next stage. For example, the weighing machine will keep requesting more stock from the flavouring machine as long as there are bags to fill; space in the fryer will make the slicing machine slice more potatoes. However, if there is a problem at any stage, the whole process will not necessarily have to shut down. For example, while a new roll of bags is installed in the weighing machine, the rest of the line can still keep working for over five minutes, using the built-in slack in the system. 60 65

Finance and Administration Manager, Nancy Moss, is currently looking at the financial viability of either installing the new system in the existing factory or increasing the number of quality control staff (see Figure 2). 70

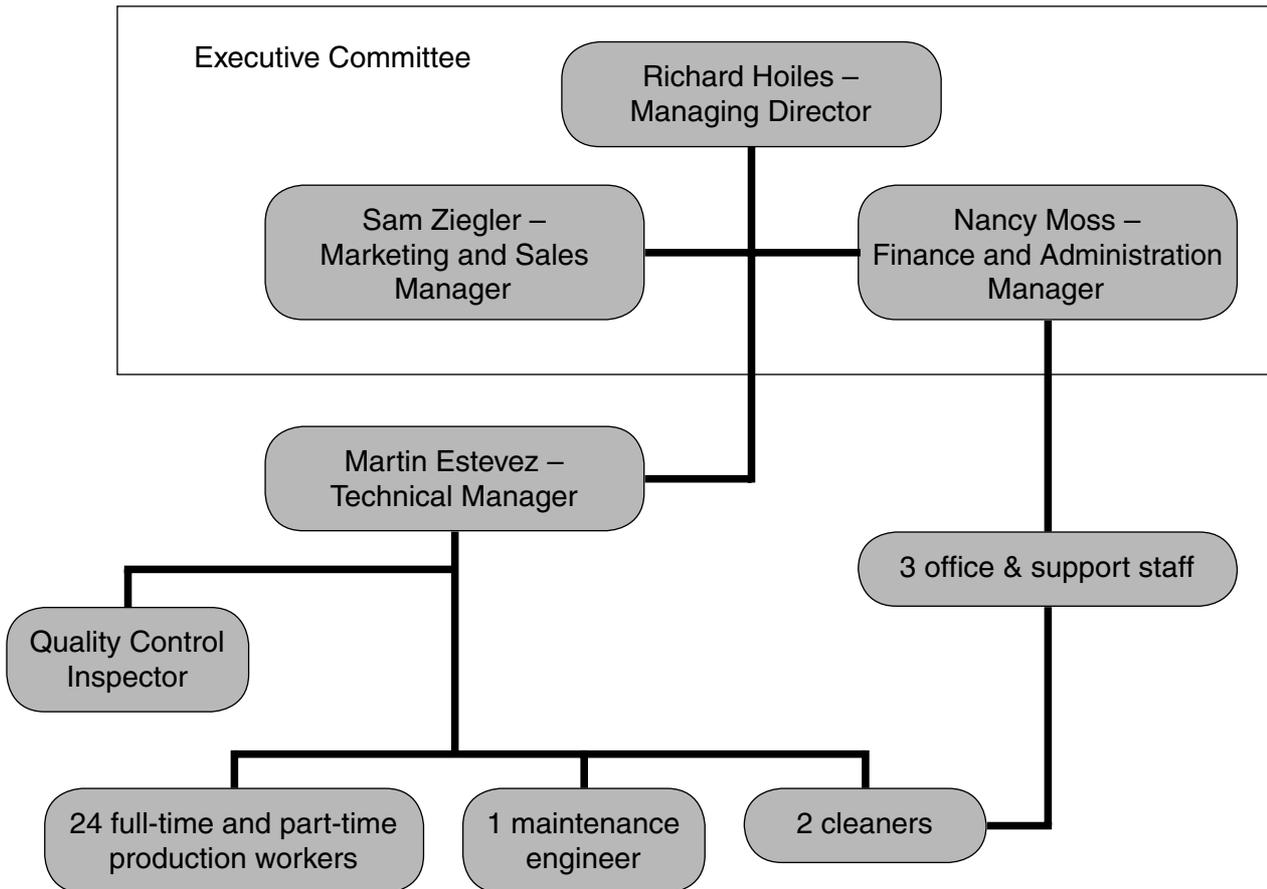
Figure 2 – Investment appraisal data for the two options

	Installing new IT system in existing factory	Increase the number of quality control staff
ARR (calculated over 5 years)	10.3%	2.3%
Payback period	4 years	6 months

The cost of extending the new system to both factories will mean an increase in the bank loan already obtained for the new factory. Sam has raised concerns that the high levels of debt will limit his ability to launch new products that are currently being planned. However, Nancy is more worried that other factors are relevant, in particular to do with the impact on the workforce. How will the new system be received by the loyal staff? 75

Nancy, along with Richard and Sam make up the Executive Committee of HCL, which takes all strategic and tactical decisions for the whole business. There is one other manager, Martin Estevez, who as Technical Manager, is in charge of the whole production process including quality control, maintenance of the machinery and looking after the workforce. However, Martin is not a member of the Executive Committee, although he is directly responsible to Richard (see Figure 3). Richard is regarded as a very hands-on person; some would go as far as saying he is a 'control freak'. Those who know him best say that this goes back to his time when he was just a farmer who was solely responsible for the success or failure of that business. Everyone agrees, however, that Richard always has the best interests of HCL at heart.

Figure 3 – Organisational structure of HCL



If the growth that HCL has experienced over the last five years continues for the next five, then changes will be required. However, Richard wants to retain the feel of a family business and local producer. He wants to ensure that if a customer rings up, then they are always answered by a person, not a machine, and one with some intelligence. He also wants to maintain the policy of selling direct to retailers so that he can keep in closer touch with the market.

To ensure this, HCL recently went as far as trying to force a leading supermarket chain to stop selling HCL's products that the supermarket had sourced from the grey market. The story was widely reported in the national press and Richard was quoted as saying, "This is a battle between David and Goliath. I started to produce premium crisps after my margins were virtually wiped out by supermarkets' demands for low prices. This particular firm nearly finished me as a potato farmer and if it had continued to sell my products it could have finished Hoiles Crisps too, as our independent retailers would have abandoned us."

Appendix 1 – Newspaper article highlighting health concerns about crisps

Health concerns over crisp habit

Half of UK children 'drink' almost five litres of cooking oil every year as a result of eating crisps. Nearly a fifth of children eat two packets of crisps per day according to research by the British Heart Foundation. Its recent campaign has also exposed hidden salt, fat and sugar in common snack foods.

However, the campaign has been criticised as 'scare tactics' by the food industry. The Snacks, Nuts and Crisps Manufacturers Association claims the report over-estimates the oil content by basing calculations on large crisp packets. A typical 35 g bag contains only 2½ teaspoons of oil, compared to 3½ teaspoons in 50 g bags.

Independent research shows that UK consumers eat a tonne of crisps every three minutes. This is enough to fill an Olympic-size swimming pool every 14 hours. Crisps are found in 69% of all lunchboxes packed for children in the UK and it is thought that by 2020 a quarter of UK children will be overweight.

Source: Adapted from BBC News Website- 21/9/06

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