

ADVANCED GCE
APPLIED BUSINESS
Strategic Decision-Making

F248/CS

CASE STUDY

Thursday 13 January 2011
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.
- This document consists of **8** pages. Any blank pages are indicated.

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Greengages

The business

Trevor Wickmayer is the sole owner of *Greengages*, a greengrocery business which he set up in 1995. Based in Maybeck, an affluent town in the south east of England, *Greengages* sells quality fruit and vegetables which Trevor purchases twice weekly direct from New Covent Garden Market. Instantly recognisable by its distinctive green and white striped canopies, the business has built up an enviable reputation for providing top quality produce at 'down to earth prices'. A far cry from the early days when survival was the sole objective, *Greengages* now achieves a very healthy net profit margin of around 23% each year. 5

Trevor's business currently consists of two shops: one situated at the far end of Maybeck's main street on a corner site next to the university campus; the other situated right in the heart of the town centre shopping area and immediately opposite the busy railway station. Trevor refers to these as his 'university' and 'station' shops respectively. 10

The 'university' shop, purchased when Trevor first started the business, has a side entrance and one large front window. The window is draped with a green and white canopy allowing fresh produce to be displayed outside in good weather. With an internal retail area of just under 25 square metres the shop is not small. In addition, the rear of the building houses a large store room and a good-sized cold store. Not surprisingly, being near to the university, a large proportion of its customers are students and university staff. 15

The 'station' shop, purchased by Trevor in 2002, is almost twice the size of the 'university' shop. It has two cold stores, two store rooms and a retail space in excess of 50 square metres. It is, by far, the largest greengrocer's shop in the town. Being double-fronted, the shop has display shelving to both sides of the entrance. Signage above both windows indicates that vegetables are displayed to the left and fruit to the right. As expected, both windows are draped with green and white canopies. Produce is displayed outside in good weather to catch the eye of passing trade. Passing trade is very important to the 'station' shop because it gains over a third of its sales from train travellers passing the shop on their daily commute to and from work. The remainder of the 'station' shop's customers are town centre shoppers. 20 25

Each shop has its own manager who is paid a salary of £16 000. Alex is the manager of the 'university' shop and Cassie the manager of the 'station' shop. Trevor, however, retains sole control over all of *Greengages*' personnel matters and insists on doing all of the recruiting, training, disciplining and dismissal of the staff himself. 30

In addition to the shop managers, Trevor currently employs two sales assistants for the 'university' shop and four sales assistants for the 'station' shop. The national minimum wage is paid to the sales assistants in the 'university' shop; however, the 'station' shop assistants are paid at a rate of £1 an hour more than their counterparts in the 'university' shop, as Trevor feels it is only fair that they are compensated for working in a much busier shop. 35

As a consequence of Trevor taking charge over all human resource issues, the managers are responsible solely for the day-to-day running of their particular shop. The managers spend much of their day serving customers and stocking shelves, just like the sales assistants.

In order to maximise the full potential of his business, Trevor constantly monitors workforce performance data for both of his shops. He is obsessed with wastage levels – the amount of fruit and vegetables that each shop has to throw away at the end of the day – as this represents lost profit to him. In addition, Trevor closely monitors economic indicators and social trends, and updates his contingency plans accordingly. 40

Over the 15 years he has been trading, Trevor has become used to having to respond to changes in market conditions in order to secure the continued success of his business. Most recently in 2008, dramatic shifts in sterling exchange rates (which made the cost of buying imported produce dearer) challenged *Greengages'* profit margins. In response, Trevor began to stock two specialist product lines – exotic fruit and vegetables such as papaya and radicchio, and ethical products such as organic produce and 'Fairtrade' crops. These specialist lines command a higher mark-up, even in periods of economic downturn, and have successfully maintained *Greengages'* impressive profit margins to date. 45 50

Proud of his business, and brimming with confidence, Trevor recently set a new objective for his business – to fund his, hopefully early, retirement.

The challenge

Two months ago, Trevor Wickmayer heard news that posed the biggest challenge to his business so far – despite considerable protests from retailers and reassurances to the contrary by the local council, outline planning permission had been granted for the building of Maybeck's first discount supermarket. To make matters worse, the proposed site is situated within one mile of both of his shops. 55

Trevor thought that his new specialist product lines would, to some extent, head off the competition, but he knew this would not be enough. Level headed as ever, and determined that his business would not fail, Trevor turned to his contingency plans and began to ponder three options. 60

The options

Option 1 – Internet deliveries

In addition to sales in its current shops, *Greengages* could sell boxes of vegetables and baskets of fruit online. Busy households could benefit from the convenience of having the very best fresh fruit and vegetables delivered direct to their door each week. Moreover, baskets of fruit would make ideal 'get well soon' gifts for patients in hospital, or healthy and nutritious presents for celebration days such as Mother's Day and birthdays. The boxes and baskets could contain the most basic of produce or something extra special from the 'Fairtrade', organic or exotic product ranges – whatever the customer required. Within a 12 mile radius, *Greengages* could deliver them all! 65 70

Trevor thinks that the delivery operation could be run by one of the sales assistants at the less busy 'university' shop. By partitioning off an office space and preparation area at the back of the shop, orders could be made up and loaded straight into the van which, except on the days when Trevor goes to New Covent Garden Market, remains parked all day in the back yard. A website designer would need to be commissioned and computers installed. A delivery driver would need to be employed. Trevor estimates the capital budget spend on this option to be no more than £12000. There would, of course, be additional revenue expenditure each year to cover the cost of the driver's wages and maintaining the website. 75

Option 2 – Smoothies and soups

Greengages could make its own fruit smoothies and vegetable soups and sell them direct to the public. On sale in both of Trevor's shops, the beverages would be served in takeaway drinks containers ready for immediate consumption – the smoothies chilled and the soup piping hot. 80

Both shops would need part of their current storage area partitioning off to make a kitchen. In each kitchen, two sinks, a cooker, a fridge and various food processing appliances would need to be installed. A point of sale counter would also need to be built in the retail area of both shops. Equipped with heating and refrigeration equipment, the counters would display the soups and smoothies until sold. 85

Trevor believes that current staffing levels are sufficient to run this option. The estimated capital budget spend to convert both shops for this option is in the region of £22 000. Trevor likes this option as it would have the added advantage of minimising daily stock wastage levels.

Option 3 – Sell flowers

The 'station' shop could sell cut flowers, in addition to its range of fruit and vegetables. The double-fronted shop would essentially be split into two, the left-hand side selling flowers, the right-hand side selling fruit and vegetables. 90

Trevor would be able to buy good quality cut flowers from the same venue as he buys his produce on his twice weekly runs to New Covent Garden Market. The fruit and vegetables could easily be more tightly packed and displayed together on the right-hand side of the shop. The left-hand side of the shop would need its shelving replaced with vases and display stands. The signage above both windows would need to be changed. 95

With the addition of a large table, one of the two existing store rooms would be used as a 'prep' area. Here, the necessary bouquets, arrangements and floral tributes would be created. A trained florist would need to be employed. Trevor estimates the capital budget spend on this option to be very low at £4 000. There would, however, be additional revenue expenditure each year to cover the cost of the florist's wages. 100

The choice

All of the three options would require some degree of building/fitting work which, for health and safety reasons, would require the closure of the affected shop or shops whilst the refurbishment work was being carried out. Each of the options would require the implementation of an effective marketing strategy to support *Greengages'* change in strategic direction. *Greengages* has sufficient retained profit to be able to fund any one, two or all three options. 105

Appendix 1

Purchases of fruit and vegetables

United Kingdom	Grams per person per week	
	1974	2005/06
Total vegetables	2578	1 998
Fresh potatoes	1 318	587
Other fresh vegetables ¹	769	802
Processed potatoes	119	255
Other processed vegetables ²	372	354
Total fruit	731	1 293
Total fresh fruit	515	856
Oranges and other citrus fruits	136	151
Apples and pears	229	226
Stone fruit	16	78
Soft fruit ³	25	108
Bananas	84	225
Other fresh fruit ⁴	25	68
Fruit juices (ml)	34	350
Other fruit products ⁵	182	87

¹ Includes fresh green vegetables.

² Includes frozen vegetables but excludes processed potatoes.

³ Includes grapes.

⁴ Includes melons.

⁵ Includes tinned, dried and frozen fruit and products containing nuts.

Appendix 2

Family spending 2008

Food and non-alcoholic drink purchases contributed £48 to weekly household expenditure – £12.80 of which was spent on meat and fish, £3.70 on fresh vegetables, and £3.00 on fresh fruit. Non-alcoholic drinks accounted for £4.00 of weekly expenditure, and £2.00 per week was spent on chocolate and confectionery.

Appendix 3

Ethical fresh produce sales rocketing in Europe

Growing consumer demand for ethical products is boosting sales of organic and 'Fairtrade' fresh produce in Europe, with revenues breaking the €5 billion barrier for the first time in 2007.

'Fairtrade' fruit and vegetables are reporting the fastest growth, with sales almost doubling last year. High growth is occurring as retailers make pledges to market only 'Fairtrade' products. Most developments have been in the UK, where two leading supermarkets have converted their entire banana supply to 'Fairtrade'.

Organic fruit and vegetable sales are also benefiting from the rise in ethical consumerism. Organic vegetables, the leading category, now comprise over 5% of all vegetable sales in northern European countries. The market share has already exceeded 10% in some Scandinavian and Alpine countries. The organic fruit market is reporting higher growth, however, as more tropical and exotic varieties come onto the market.

Source: Organic Monitor, www.organicmonitor.com

Appendix 4

How we compete with the supermarkets using e-commerce

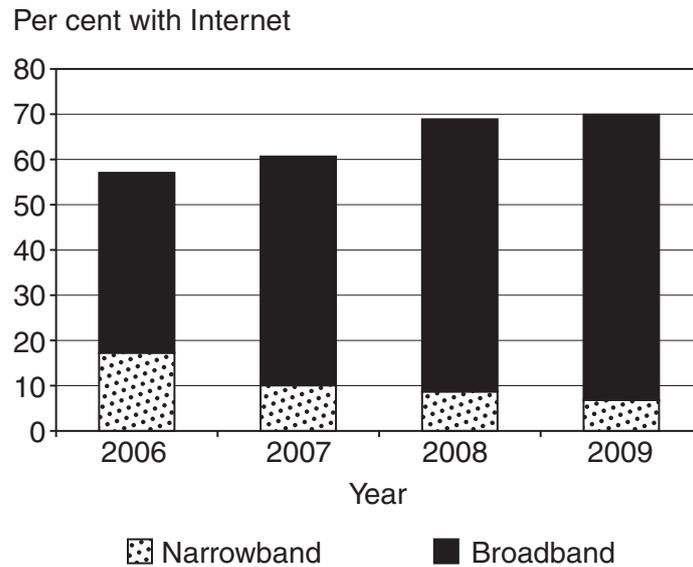
With local supermarkets forcing small independent businesses out of the market, bakers Tim and Kevin Slatter moved their business online with phenomenal results. As the pair say in a recent Marketing Donut case study, "e-commerce saved the business".

In the case of the Slatter brothers, it was an all too common scenario – a small business facing dwindling profits because of supermarket competition.

In 2001, Tim was running a struggling bakery business with four shops in South London when one of his cake decorators suggested focusing on celebration cakes. Today, the business has just one shop, but is a much bigger operation thanks to a website that offers 900 celebration cakes, ranging from simple to ornate £900 wedding towers.

Appendix 5

Internet access



18.3 million households in the UK (70 per cent) had Internet access in 2009.

Sixty four per cent of all adults who were recent Internet users (having accessed the Internet in the three months prior to interview) had even purchased goods or services over the Internet in 2009. Of these, 83 per cent (26 million) had purchased within the last three months.

Appendix 6

Healthy eating trend sees sales of smoothies soar

Sales of crushed fruit drinks rose by 523% in the five years to 2006 and the number of smoothies sold is expected to almost treble by 2011.

“Smoothies have been the true drinks success story of the 21st century and are clearly no longer a niche market,” said Vivianne Ihekweazu, senior market analyst at Mintel. “Healthy eating, and the five-a-day fruit and vegetable campaign, have been the driving force behind continuing rates of exceptional growth.”

Despite the huge growth in the market, less than a third of the adult population currently buys smoothies. The 15–19 and 25–34 age groups are the most likely to reach for one, which the report believes may be due to their busy lifestyle or the need for a hangover cure.

The soup market – a market assessment

Snacking and convenience have been key drivers of the UK soup sector, more so than in other major European countries.

The light lunch is an important source of demand. Apart from in-home consumption, out-of-home situations may represent a source of further growth. Chains of soup bars such as Soup Opera and Soup Works have started appearing in high consumer traffic areas, mainly in Central London, although they face considerable competition from a variety of other outlets.

Appendix 7

Cut flower sales

The UK fresh cut flower and indoor plant market was worth £2.2 billion at the retail level in 2008. To put this in perspective, the UK music industry was worth around £2 billion. This represented an average spend per person per year of £36 (£28 on flowers and £8 on plants). While this was a good increase from the 1984 value of £8 per person, it still comes nowhere near the rest of Europe, where people regularly spend £60–£100 per year on cut flowers and indoor plants.

Around 60% of the £2.2 billion spent represented people buying flowers and plants for themselves, for their own homes. Even five years ago, most people in the UK only bought flowers for special occasions such as weddings and anniversaries, and may have bought a pot plant when visiting someone. Now, we all realise the beauty of having fresh flowers and plants around our homes, workplaces and public places. Why should they be saved for special occasions only?



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