UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Advanced Level

BUSINESS STUDIES **9707/33**

Paper 3 **October/November 2011**

CASE STUDY

3 hours

Additional Materials: Answer Booklet/Paper

4332198148

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.
You may use a soft pencil for any diagrams, graphs or rough working.
Do not use staples, paper clips, highlighters, glue or correction fluid.

Section A
Answer **all** questions.
Section B
Answer **one** question.
You are advised to spend 40 minutes on Section B.
The businesses described in this question paper are entirely fictitious.

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.

This document consists of **5** printed pages and **3** blank pages.

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Home Catering Services (HCS)

The business idea

Being made redundant was perhaps the best thing that ever happened to Youssef. After losing his job in a food processing factory he tried for months to gain other employment. His luck changed after a party he and his wife held for several friends. His guests were so impressed by Youssef's cooking – he liked being in charge of the kitchen! – that one of them suggested he should set up his own business selling his home-made food and delivering directly to customers.

Kitchen too small

Youssef and Anais, his wife, advertised locally and in the first week they had four customers. Word of mouth soon led to many more orders. It quickly became obvious that Youssef's kitchen was too small to cope with big orders of food. A large order for ten meals one evening led to cold food being delivered and the customer refused to pay! Anais had the idea of cooking in customers' homes. She said to Youssef: 'We could offer a full range of meals, ordered in advance, that we would cook in the customers' own kitchens. We could also provide serving staff and offer a complete catering service.' So, Home Catering Services was created.

The business today

HCS has been operating for 5 years. The business was incorporated as a private limited company three years ago and has recently become a public limited company. Youssef and his family retained 51% of the shares. The quality food and customer service offered by the business has led to rapid expansion. HCS now employs 25 cooks and 15 serving staff. Nearly all of the cooking is still done in customers' own houses but the business now has a small commercial kitchen. This produces batches of the most popular dishes. These are taken to customers' houses and the rest of the meal is cooked there. The cooks are told by Youssef what to prepare and cook. He discusses the requirements of each customer with them over the telephone. The cooks take essential equipment – such as professional kitchen knives and electric mixers – with them to each house.

Legal controls

As the business expanded, Youssef discovered that legal controls would need to be understood and acted on by himself and all the staff he employed. Amongst these laws were controls that governed:

- Training of catering staff in food preparation
- Maximum lengths of time for freezing food
- Health and safety in the kitchen
- Hygiene requirements.

He had to pay for all the company's staff to attend training courses and obtain certificates to prove they knew what the law required. Some special equipment had to be purchased for the safe sharpening of knives. Electrical equipment had to be safety checked each year. The fact that all of his staff were trained and qualified to the highest standards was a major marketing point for HCS. The business had suffered no staff injuries or cases of food poisoning amongst its customers.

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Proposed new production machinery

Youssef wanted to increase output and labour productivity to try to reduce unit costs. He had asked the head cook to investigate a new semi-automated mixing and baking machine for the commercial kitchen. There are two suitable machines. Machine A could operate with half the workers currently employed in the kitchen and would double food capacity – but it costs $100 000. This might mean freezing some of the food for future use if the production exceeded demand in the short-term. Machine B is less efficient but cheaper to buy at just $60 000. It has a total output just above the current demand levels. Further details are given in Appendix A.

Human resource problems

The future expansion of the home catering service is at risk due to problems of recruiting and retaining good cooks. This problem had been discussed at a recent Board of Directors meeting. 'Despite offering training in all aspects of catering and a share ownership scheme, staff turnover increased to 25 % over the last 12 months', said the Human Resources Director.

The Finance Director commented: 'But perhaps training is part of the problem – we lose well trained and qualified staff to restaurants and other caterers. I think we should pay all of our staff a salary, not a commission on each meal they cook for customers. This salary could increase with the number of years staff work for us. The employee share ownership scheme has not been effective, as most staff sold their shares when we went public. I suggest a profit sharing scheme instead.'

Should HCS attempt to take over DDD?

The conversion of the business to a public limited company has resulted in pressure on directors from shareholders to expand the company and increase annual dividends. One option for growth is to take over another business – external growth. The Finance Director has identified a food processing company that, she believes, could make a good takeover target for HCS. DDD cooks and processes ready-made meals, using flow production methods. These are sold to large supermarkets under their own brand names.

DDD's market share and profits have fallen in recent years, leading to a low share price. The company has invested heavily in the latest food processing technology, leading to some job losses but more redundancies are likely. Supermarket businesses are putting increasing pressure on their suppliers to improve the quality of their products but at lower prices.

Youssef is very keen to make a bid for DDD. He told the other directors: 'Social changes such as more single person households and more women in employment are leading to huge increases in sales of ready-made meals. Although DDD's annual revenue (sales turnover) is twice that of HCS, I believe we could still afford to take it over if we issued additional shares. The potential for expansion is huge. But I accept that the integration would almost be diversification – taking us into new products in another sector of the food market.'

The Marketing Director obtained some economic forecasts and showed these to other directors at the meeting (see Appendix C). He said: 'The demand for our income elastic home catering service might be hit hard if the economy falls into recession. Perhaps now is the right time to consider moving into making products that are less income elastic.'

Appendix A: Data on the two semi-automated mixing and baking machines

	Machine A	Machine B
Number of workers needed	3	5
Maximum output of meals per week	1500	800
Average weekly wage per worker	$100	$100
Forecasted payback period	3 years	4 years

Appendix B: Accounting data for HCS (year ending 31 October 2011)

Total dividends paid ($000)	200
Earnings per share	$0.50
Dividends per share	$0.25
Profit after tax and interest ($000)	400
Retained profit ($000)	200
Share price as at 31 October 2011	$5.00
Number of shares issued	800 000

Appendix C: Forecasted economic data for the country HCS operates in

	2012	2013
Annual rate of real GDP growth	2%	0.5%
Interest rates	6%	4%
Unemployment rate	8%	10%

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Section A

Answer **all** questions in this section.

1 Analyse the advantages and disadvantages to HCS of legal controls. [10]

2 **(a)** Using data in Appendix A, calculate for both machines:

(i) Labour productivity [4]

(ii) Labour cost per meal. [4]

(b) Using your answers to **(a)** and other information, recommend which machine HCS should purchase. Justify your answer. [14]

3 **(a)** Using data in Appendix B, calculate **two** ratios for 2011 that would be useful to potential shareholders of HCS. [6]

(b) Would you advise a potential shareholder to invest in HCS? Use your results from **(a)** and other information to support your answer. [10]

4 Discuss the most important differences between the marketing of HCS catering services to consumers in their own homes and the marketing of DDD products to supermarkets. [16]

5 Evaluate the most appropriate methods that HCS might use to solve its human resource problems. [16]

Section B

Answer **one** question in this section.

6 Would you advise Youssef and his fellow directors to make the strategic decision to take over DDD? Justify your answer. [20]

7 Assume the takeover takes place. Discuss how Youssef could successfully manage the substantial changes that would result from the implementation of this strategic decision. [20]

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