Cambridge Assessment International Education

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BUSINESS **9609/32**

Paper 3 Case Study **October/November 2020**

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INFORMATION
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- You may annotate this insert and use the blank spaces for planning. **Do not write your answers** on the insert.

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Garbanzo Restaurants (GR)

Leff Alfa left school with no formal qualifications. However, he had a passion for food and started working for a fast food business in country F. Leff worked hard and within five years was promoted to restaurant manager. By 2010, he had become dissatisfied with not being able to make strategic decisions. He decided to start up his own business. Leff is now the Managing Director of GR, a medium-sized private limited company in country F. GR has a chain of 15 restaurants which sell high quality, healthy food using locally sourced produce (ingredients). GR has expanded slowly. However, Leff is now considering ambitious growth strategies requiring significant capital investment.

Leff makes the decisions

GR has an organisational structure with a tall hierarchy. Leff retains control of all key decisions aided by the Finance, Human Resource and Marketing Directors. These directors report directly to Leff and help him plan and decide on strategies, tactics and policies for GR and its restaurants. GR employs a manager for each restaurant with responsibility for implementing Leff's policies, recruiting employees and sourcing local produce. Leff makes decisions about pricing and menus. He sets and monitors budgets for each restaurant. Restaurant managers have a small marketing budget. GR has a much larger central marketing budget to develop the GR brand.

Restaurant 16

Leff has decided to open a new restaurant. He has identified two possible locations. Location X is an existing fast food outlet in a shopping mall near a city. There are three other restaurants in the shopping mall. Location Y is in a tourist resort and would require more work to convert the building to a suitable restaurant layout. Leff has gathered information about the two locations. This is shown in Table 1.

Table 1: Information on the two locations

	Location X	**Location Y**
Estimated time until opening of restaurant	2 months	6 months
Target market	Local community	Tourists
Capital cost of building work and equipment	$30 000	$100 000
Monthly fixed costs (including leasing cost)	$12 000	$24 000
Estimated average variable cost per customer	$2	$2
Estimated average revenue per customer	$8	$10
Expected average monthly number of customers	3 000	5 000
Number of customers per month needed to break even	2 000	See Question **2(a)(i)**
Expected monthly profit	$6 000	See Question **2(a)(iii)**
Length of contract for leasing the building	1 year	3 years

Human resource problems

Suma, the Human Resource Director, is worried about the high level of labour turnover and absenteeism at many restaurants, particularly among kitchen employees. These problems add to GR's recruitment and training costs. All new employees receive the minimum legally required training in food hygiene and health and safety. Most restaurant managers are recruited externally and Leff prefers individuals with strong personalities who 'get things done'.

The restaurant market is highly competitive. Consequently, Leff aims to keep labour costs low and maintain as much labour flexibility as possible. Many kitchen employees and waiters are paid the legal minimum wage. However, waiters can supplement their income through the tips that customers give for good service and food. Some employees have part-time contracts and some employees have full-time contracts. A small number of employees are on zero hour contracts even though the government is planning to make these illegal.

Restaurant managers impose the rigid work practices developed by Leff and decide the weekly allocation of tasks. There is little consultation with employees about any changes introduced to the restaurants. Suma has conducted a survey of employees and leavers to provide feedback about GR. Tables 2 and 3 provide selected employee data and information from the survey.

Table 2: Employee data

	2018	2019
Number of restaurant employees	200	200
Labour turnover	20%	22%
Days lost through absenteeism	1400	1450

Table 3: Extract from surveys of employees and leavers

Positive factors of working for GR	• High level of tips (stated by some waiters) • Good working conditions
Negative factors of working for GR	• Lack of empowerment • Limited consultation
Main reasons for leaving GR	• Dissatisfaction with allocation of work tasks • Low pay • No opportunities for promotion • Variable working hours

Increasing revenues

GR's objective for 2021 is to increase revenue by 10% and profit by 15% at its existing restaurants. Leff and Alec, the Marketing Director, are working on the marketing plan for 2021. Using past revenue data, market reports and primary research, Alec has considered how changes to price and promotion might affect demand. The price of a typical falafel meal at GR is $6 and in the last twelve months, 360 000 of these meals were sold. He estimates that competitors in GR's market segment will, on average, increase prices by 5% in 2021. If GR prices and other factors remain unchanged, Alec estimates additional sales of 14 400 falafel meals.

Alec has also estimated that promotional elasticity of demand is 0.2. GR's current annual spend on above the line promotion is $150 000. GR's revenue was $5.76m during the last 12 months.

Budgeting for success

Leff sets quarterly budgets for all restaurants. He uses an incremental budgeting approach. Every quarter he meets with individual restaurant managers to monitor performance and give them new budgets. Leff is unhappy with the performance of Restaurant 13, which has failed to meet budget targets for the last 18 months. See Table 4.

At the most recent meeting, the manager of Restaurant 13 blamed the adverse variances on:

- increased recruitment and training costs due to higher labour turnover
- a new competitor opening a nearby restaurant 12 months ago
- a reduction in tourist numbers caused by appreciation of country F's currency exchange rate
- an increase in costs of locally sourced food due to poor weather.

The manager told Leff that: 'Unrealistic budgets demotivate me and other employees and do not help with the allocation of resources.' Table 4 shows recent budget data for Restaurant 13.

Table 4: Restaurant 13 – Budget data for the 3 months to 30 September 2020

	Budget ($)	Actual ($)
Revenue	120 000	115 000
Cost of sales	27 000	28 000
Restaurant overhead costs	60 000	65 000
Allocated Head Office overheads	15 000	15 000
Profit	18 000	7 000

Strategic options for growth

Leff has decided to expand GR. He has conducted a thorough strategic analysis of his business and as a result is considering two strategic options.

Strategy 1: Manufacture chilled meals.

GR restaurants already sell a range of chilled meals, produced and packaged in each restaurant, for customers to purchase and reheat later. A national supermarket is interested in selling these GR meals throughout country F. GR would need to establish a manufacturing site to meet the potential demand for these meals. Leff estimates a capital cost of $3m.

Strategy 2: Takeover of Abila.

Abila is a group of 10 restaurants in country F. The owners want to sell the business for $1.5m. If GR purchased Abila it would have to rebrand the group and update the restaurants. This would cost a further $0.5m. Leff believes that he can improve profitability of these restaurants through rationalisation. There would be many redundancies.

Appendix 1 and Appendix 2, on the next page, give further information about Leff's strategic analysis.

Appendix 1: SWOT analysis for GR

Strengths	**Opportunities**
• Strong brand image • Quality meals • Low gearing	• Market growth in restaurant market of 3% per annum • Increasing sales of chilled meals of 10% per annum
Weaknesses • Labour turnover • Demotivated employees	**Threats** • Competitors with greater economies of scale • New entrants to the market • Changes in the legal environment

Appendix 2: Porter's Five Forces – Country F chilled meal market

Threat of new entrants	**Buyer power**
• Low consumer brand loyalty in market	• Three supermarkets control 80% of the market
Threat of substitutes • Many substitutes available	**Supplier power** • Few manufacturers of chilled meals

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