# Cambridge International AS & A Level

**BUSINESS** **9609/33**

Paper 3 Case Study **May/June 2020**

INSERT **3 hours**

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

This document has **8** pages. Blank pages are indicated.

DC (CJ) 190180/2

## Pizza Adventure Company (PAC)

PAC is a private limited company which owns restaurants. It was started ten years ago in a large city in country X, which is located in Asia. The business was set up by Paulo who had moved to country X from Italy with his parents to start a farm.

Paulo soon decided to move to the city where he observed the growing popularity of international food. He decided that he could adapt traditional pizza recipes to appeal to the tastes of Asian customers. This would also attract the increasing numbers of tourists visiting the city.

PAC has grown very fast and now owns 10 restaurants throughout country X, in major cities and tourist resorts. The restaurants are managed by local employees. Their performance is assessed by Paulo and his brother Gio, the directors of PAC. Planning and resource management is supported by enterprise resource planning (ERP) software throughout the company.

### Economic environment

The economy of country X has grown in recent years and average incomes are rising by 5% per year. Annual inflation is steady at 4% and unemployment is falling, especially in the cities. Changes in government policy have led to the currency exchange rate of country X appreciating (increasing in value) against other major currencies. The government of country X sees overseas tourists as an economic benefit, so it has lifted travel restrictions and launched a worldwide advertising campaign to encourage visitors.

### Products and services

PAC restaurants sell a wide range of pizzas and other foods, such as salads. Customers have a wide choice of ingredients and toppings for their pizza. Many of these ingredients and toppings are grown or produced at Paulo's own family farm. This business model has proved very popular and the restaurants are full most lunchtimes and evenings. PAC also offers a takeaway service that enables customers to order by phone or online using an App. Food delivery is outsourced to a specialist company which uses motorbikes to avoid the problem of heavy traffic in the cities.

### Marketing

Paulo's daughter, Alice, is responsible for marketing. She has talked to Paulo about increasing the range of food available in the restaurants, as she believes that the market for pizza in country X is approaching the maturity stage. In addition, competition is increasing with several multi-national pizza companies starting up in country X.

Alice would like PAC to serve a wider range of vegetarian options and many more salads, as well as the pizzas. She has noticed increasing numbers of online articles about the need to eat a healthy diet, with pizzas often mentioned as examples of unhealthy food items. Alice wants to launch a new 'healthy life' range of meals at two of the biggest restaurants to test the market. The target market for the new range will be young professionals trying to lead a healthy lifestyle.

Alice has used her skills as an ICT graduate to build a website for PAC, which she now maintains on a daily basis, including news on new products, special offers and customer reviews. PAC restaurants have received many excellent reviews on travellers' websites as well as in local newspaper articles and tourism guides.

## Finance

PAC's profits have increased every year. Paulo has always reinvested most of the profit back into the company, after paying dividends to himself and other family shareholders. Paulo has also financed the purchase of some of PAC's restaurants through loans from banks. Financial data for PAC is shown in Appendix 1.

## A new project

Paulo has identified the rising popularity of 'street food' being sold by mobile vendors at events and markets. He would like to import four pizza vans in 2020, equipped with ovens. Pizzas can then be prepared and sold wherever the vans are taken. The total investment will be $50 000 per van. Each van will cost $2000 per year to maintain. Paulo plans to purchase the vans using a bank loan. However, Gio is worried about PAC taking on further non-current liabilities. The data for the proposed pizza van project is shown in Appendix 2 and Appendix 3.

## Human resource and quality issues

The restaurant managers have a wide range of delegated powers, including employee recruitment and food ordering, according to the individual restaurant sales. Paulo promotes teamwork in each location. All employees are provided with a uniform and given a free meal at the end of their duty hours. Restaurant opening times are long, requiring careful workforce planning. PAC employees have different employment contracts. Restaurant managers are full-time, permanent employees. Most waiting staff have flexible, part-time contracts. Labour turnover rates are high because restaurant work is demanding and pressurised, with some leavers saying they feel 'undervalued'.

Paulo and his management team try to ensure that food and quality service standards are consistently high in all PAC restaurants. All ingredients are stored carefully and used while still fresh. However, recently there have been an increasing number of customer complaints about the quality of service at two PAC restaurants. A customer has also complained that they became very ill after eating a pizza at a PAC restaurant. She claimed that the food had not been cooked thoroughly. The manager of the restaurant did not take this complaint seriously and she did not inform Gio and Paulo about it.

## Further expansion

Paulo would like to expand PAC further with the aim of increasing return on capital employed. He is planning to meet with his management team to consider two opportunities. Only one strategy will be chosen. A summary of research data is shown in Appendix 4.

*Option 1: Purchase of 'Healthy Juice' bar business*
Take over ownership of a business which operates two 'Healthy Juice' bars in shopping malls in country X.

*Option 2: Sell franchises of PAC restaurants in countries Y and Z*
Sell franchises of the PAC restaurant model in neighbouring countries Y and Z. This would require the establishment of a central head office to administer the franchised outlets. Ingredients would be sourced from local suppliers.

**Appendix 1: Financial data for PAC ($m)**

| | Actual data for 2019 | Forecast for 2020 (without new pizza van investment) |
|---|---|---|
| Revenue | 5.2 | 5.3 |
| Cost of sales | 1.3 | 1.5 |
| Labour costs | 1.5 | 1.7 |
| Marketing and administration costs | 0.7 | 0.8 |
| Other expenses | 1.1 | 1.1 |
| Non-current liabilities | 4.9 | 4.8 |
| Capital employed | 10 | 10 |

**Appendix 2: Financial data for pizza van project**

| Year | Net cash flow ($000) | Discount factors at 8% |
|---|---|---|
| 0 | (200) | 1 |
| 1 | 70 | 0.93 |
| 2 | 70 | 0.86 |
| 3 | 80 | 0.79 |
| 4 | 80 | 0.74 |

**Appendix 3: Forecast data for each pizza van in 2021, prepared by Gio**

| | |
|---|---|
| Forecasted number of customers | 6000 |
| Average spend per customer | $7.00 |
| Average variable cost per customer | $2.50 |
| Labour costs | $12000 |
| Van operating costs including maintenance | $3500 |

## Appendix 4: Research data for Options 1 and 2

| | **Option 1**<br>**Purchase of ‘Healthy Juice’ bar business** | **Option 2**<br>**Sell franchises of PAC restaurants in countries Y and Z** |
|---|---|---|
| Initial cost | \$0.75m | \$0.5m |
| Timescale needed for implementation | 3 months | 1–2 years |
| Probability of success | 0.85 | 0.55 |
| Main driving forces | • Widen PAC product portfolio<br>• Widen market and extend reach of PAC brand | • Use of PAC core competency<br>• Become an international company and brand name |
| Main restraining force | • Lack of familiarity with juice products and shopping mall environment<br>• Increasing local and international competitors | • Lack of familiarity with franchising and countries Y and Z<br>• Difficult to control franchisees outside country X |
| Position on Ansoff matrix | New product, existing market | Existing product, new market |

**BLANK PAGE**

**BLANK PAGE**

**BLANK PAGE**