

Paper Reference(s)

6121/01 6122/01 6123/01

Advance Information

Edexcel GCE

Business Studies (8076/9076)

Advanced Subsidiary

Advance Notice of Case Study for

Unit 1 – Business Structures, Objectives and
External Influences

Unit 2 – Marketing and Production

Unit 3 – Financial Management

June 2005

This paper may be opened on
Monday 21 March 2005

Information for Candidates

In preparing for the Case Study paper, candidates are advised to undertake general revision as well as detailed investigation of issues related to the Case Study.

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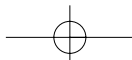
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CONTEXT

The Changing Sandwich Industry

It is 0600 hours when the 700-strong army of sandwich makers clocks on for the daily shift at Buckingham Foods' Redmoor factory located just off junction 14 of the M1 motorway. The factory has been busy all night as deliveries of bread and fresh produce arrive. The workforce, almost equal numbers of men and women, fill and pack 1 250 000 sandwiches each week.

At Buckingham Foods a huge team of employees, most earning the national minimum wage, flank the 70-foot conveyor belt. The bread is buttered by machine but fillings (assembled from approximately 400 different ingredients) are added by hand. The sandwiches are cut by machine and then packaged by hand. 5

Twenty miles further along the motorway is Telfer Foods, just one of many companies exclusively supplying Marks & Spencer plc. Telfer Foods makes 40 million sandwiches per year plus dips, party foods and pâtés solely for Marks & Spencer plc. However, this figure is about to increase dramatically, because Telfer Foods has built the world's first automated sandwich production line. Machines, not people, will butter the bread, add the fillings, season, top, cut and pack the sandwiches. One rival sandwich maker stated, 'they can have an entire line dedicated to egg and cress because the volumes they produce are so huge'. 10 15

Over the past 20 years the humble sandwich has been turned into a massive industry that dwarfs fast-food rival products such as burgers on the high street. In 2002 Britons bought 1.9 billion sandwiches, turnover was £3.3 billion and there were 300 000 people working in the industry. This industry is increasingly affected by UK and EU food legislation.

While Marks & Spencer plc uses only exclusive suppliers, other retailers such as Tesco plc and Boots plc buy their sandwiches from companies such as Buckingham Foods, Heinz and Ginsters. Sandwiches are made and delivered the next day to retailers. Ginsters alone has a 150-strong fleet of vans to distribute the product from the factory to the retailer quickly. In contrast, the sandwich chain Pret A Manger makes all its sandwiches in each store in order to reduce distribution costs and get closer to customers. Teams of workers assemble ingredients that have been delivered during the night from 40 different suppliers. 20 25

The overall favourites, such as egg and cress, tend to remain popular but there is an ever-changing demand for fashionable and health-conscious fillings as consumers follow a more varied diet. Such fillings may require higher-quality ingredients that lead to higher sandwich prices. Jim Winship, director of the British Sandwich Association, says, 'It is becoming more usual to spend over £3 on a sandwich, whereas just a few years ago it was more like £1.40. But there is a limit to how much people are willing to spend on a sandwich'. 30

Pret A Manger

Pret A Manger is a private company that was started in the mid-1980s by two friends with a £17 000 loan. It made its name as an environmentally-friendly trader selling fresh, healthy food. In 2001 Pret A Manger had: 35

- over 2 100 staff employed in more than 110 outlets in affluent urban areas across the UK
- 85 per cent of employees aged below 35, with a male to female ratio of 50:50
- a staff turnover of 97 per cent
- a sales turnover of £100 million. 40

Pret A Manger has a small but growing number of outlets abroad, for example in New York, Hong Kong and Japan. The company policy is to own and manage all new outlets and it has no current plans to franchise either in the UK or internationally.

In 2001, Pret A Manger was voted 10th in the *Sunday Times* '100 Best Companies to Work For in the UK'. In 2002, the company was at number 34 in this list, but in 2003 it failed to feature at all. The directors concluded that this was caused mainly by the fact that, out of the 600 questionnaires sent randomly by the *Sunday Times* to Pret A Manger employees, only about 150 were returned. Furthermore, a significant proportion of these came from managerial staff. The *Sunday Times* only considers companies eligible for the final listing if more than 40 per cent of surveys are returned. Across the companies surveyed the average return rate is 57 per cent. In order to keep in touch with its staff, Pret A Manger annually undertakes its own internal opinion survey. 45 50

Pret A Manger offers its workers a fourfold package consisting of rewards, openness, career development and fun, spending £250 000 a year on staff parties and subsidised Friday night drinks each week at trendy bars. Career development is encouraged from within the business. The company's philosophy is to keep, develop and promote its best staff and provide early opportunities for talented people. It offers clear career paths with appraisals every four months and well-structured training. Other incentives provided by the company include access to a walk-in medical centre, a generous maternity/paternity package, counselling, compassionate leave and sabbaticals to support staff. There is also a company magazine and the payment of team bonuses based on assessment by a 'mystery shopper'. Over 80% of Pret A Manger outlets achieve this bonus each week. This means that each team member earns an additional 75p for every hour worked that week. Other bonuses include £1 000 for useful new ideas and £250 to people who are promoted so that they can distribute it amongst colleagues who have helped them. 55 60

Pret A Manger, as part of its management information system (MIS), has a human resource software package that records and retrieves accurate and reliable personnel and recruitment information. It allows for data transmission between outlets and head office and means that the human resource team has access to personnel information that was not previously available. It has also removed some of the form-filling and inputting of data, reducing a large administrative task. Data is more accurate and can be used to make informed decisions about current and future human resource activities. The outlets now have a system to recruit staff and maintain their details including holidays, absences and a time-sheet that updates this information. When staff transfer to another outlet, their electronic record goes with them. The MIS system also enables Pret A Manger's management to set budgets and prepare financial forecasts. 65 70

The desire to explore overseas expansion, particularly in Asia, led to Pret A Manger's deal with the McDonald's Corporation. In 2001, the company sold a 33 per cent stake to the McDonald's Corporation to aid this expansion objective. The McDonald's Corporation has provided Pret A Manger with contacts, a food distribution network and expertise in finding sites. Pret A Manger's management claimed 'the deal was not about money – we could have sold the shares for much more to other buyers, but they wouldn't have provided the support we need'. However, this deal has not been without risk. Reaction amongst staff was initially hostile and they had to be reassured that Pret A Manger would still be run as a separate entity from the McDonald's Corporation. Nevertheless, a spokesperson for the McDonald's Corporation said 'We have an option to increase our investment and to fully acquire them over time'. Another risk to Pret A Manger is the loss of friendship with the environmental lobby. The logic of the deal for the McDonald's Corporation is clear. Britons spend three times as much on sandwiches as on burgers – one third of the population eats a sandwich every day! However, for Pret A Manger the deal could yet prove dangerous. The company's success has always been finely balanced between affordability and luxury, environmental awareness and pre-packaged convenience.

The risk is that as the company grows, it will lose its upmarket tag. Pret A Manger will be hoping that the super-pressurised young professionals on whom it has built its prosperity will continue to support the company.

Adapted from the following sources:

'How Robots are Joining £3.3bn Sandwich Army', Sarah Bridge, *Financial Mail on Sunday*, 26 January 2003

'Pret A Manger goes global', www.guardian.co.uk

www.pret.com

www.timesonline.co.uk

***Retail Technology*, December 2001**

***Pret Star magazine*, Issue 61, May 2003**

APPENDIX 1

Sales and financial information for *SuperSandwich* (a fictional company)

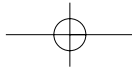
SuperSandwich is a rival of Pret A Manger. It has a number of outlets throughout the United Kingdom. The following information relates to the Birmingham outlet of SuperSandwich.

- Budgeted financial information, April 2005

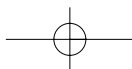
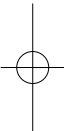
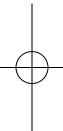
Budget for April 2005			
Sales (£)	Labour costs (%)	Other costs (%)	Profit (%)
40 000	35	55	10

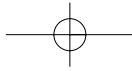
- Cash flow forecast, July–December 2005

Month	July £	August £	September £	October £	November £	December £
Inflow						
Sales of foodstuffs	38 000	38 000	37 500	36 500	35 500	35 000
Sales of drinks	2 500	2 500	2 400	2 300	2 200	2 100
Total	40 500	40 500	39 900	38 800	37 700	37 100
Outflow						
Purchase of food supplies	19 000	18 750	18 250	17 750	17 500	17 000
Purchase of drinks	1 250	1 200	1 150	1 100	1 050	1 025
Rent and business rates	4 000	4 000	4 000	4 000	4 000	4 000
Power	450	450	500	550	550	550
Wages	14 000	14 000	14 000	14 000	14 000	14 000
Local advertising	250	250	250	250	250	250
Other expenses	500	500	500	400	400	400
Capital expenditure			9 000			
	39 450	39 150	47 650	38 050	37 750	37 225
Net Inflow/Outflow	1 050	1 350	(7 750)	750	(50)	(125)
Opening Balance	5 000	6 050	7 400	(350)	400	350
Closing Balance	6 050	7 400	(350)	400	350	225

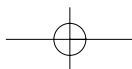
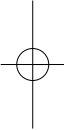
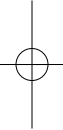


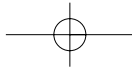
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