Cambridge Assessment International Education

Cambridge International AS & A Level

BUSINESS **9609/33**

Paper 3 Case Study **May/June 2022**

INSERT **3 hours**

* 5 4 4 2 9 3 5 7 5 3 - I *

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. Any blank pages are indicated.

Thierry's Kitchen (TK)

Thierry's Kitchen (TK) operates in four European countries with its head office in country H. TK was started by Thierry Radelet in 2017, after he gave up a senior management role in a food delivery company to start his own business. Thierry had observed the rise in popularity of delivery of cooked meals to offices and households. He identified a gap in the market for an efficient service, which would focus on high-quality cooked meals for delivery only. TK grew quickly and converted to a public limited company in 2019.

TK now has two kitchens in each of four European capital cities. The eight locations are outside the city centres and each kitchen has the capacity to produce 2200 meals each day. Meals are packaged and then delivered to customers by motorcycle.

Thierry works at the company's head office, attached to TK's first kitchen location in country H. He visits the other kitchens once every month. Thierry and a team of directors make all the major decisions about the main menu items and new locations. Each kitchen has a manager who is responsible for decisions about inventory management and human resources.

TK has financed its growth through retained profits and a loan of $15 million. Dividend payments to shareholders have been consistently above average for the catering industry.

External environment

The European countries in which TK operates experienced economic recessions during 2020. There has been economic growth since then. Governments have supported recovering economies with grants and loans to small and medium-sized businesses, including TK. Social and technological changes have included fewer consumers eating at restaurants. Smartphone apps are increasingly used for online shopping and ordering meal deliveries. More employees are now working from home rather than in offices. The populations of European capital cities include significant numbers of young, professional individuals who earn above average incomes.

Marketing

TK differentiates its meal service from the increasing number of competitors on the basis of choice, quality and packaging. The menu is varied and includes daily special offers. Consumers are assured of the high-quality of TK's meals as it provides a complete service; from sourcing ingredients to cooking, packaging and delivery. TK's Operations Director has worked closely with a packaging company to research, develop and patent a range of recyclable packaging containers that ensure meals arrive hot and in excellent condition. Marketing is mainly on its website and social media. However, TK's Marketing Director believes that the monthly distribution of leaflets to businesses and households is a good use of the marketing budget. The average selling price of a meal is $8. The delivery charge is $5 per order and the average order is for 3 meals.

Innovation

Thierry has always ensured that TK is at the forefront of product and process innovations in the food delivery business. The majority of TK's orders are received through its smartphone app. Thierry and the other TK directors are now interested in trialling automated (driverless) delivery vehicles (ADVs) in country H. The ADVs will be computer controlled and offer fast, low-cost meal deliveries. ADVs may be ideal for deliveries in city locations. The capital cost of the ADV trial will be $1.5 million. This could be financed by further bank borrowing or a new share issue.

Operations and human resources

TK's kitchen operations are labour-intensive. Meals are produced using batch production, but demand for different meals is difficult to predict due to changing food trends. This makes it very difficult to control inventory. Frequently, too much of some menu items is produced leading to food wastage. Recently, following a social media review praising a TK vegan curry meal, demand increased so quickly that the kitchens failed to produce enough. Some customers were disappointed because their orders were not met. TK's Operations Director is investigating the use of lean production techniques, such as Just in Time (JIT), which he believes could improve efficiency.

Each kitchen employs a manager and a team of ten full-time chefs on permanent employment contracts. There are also kitchen assistants, meal packers and delivery drivers who are employed on a range of part-time and zero-hours contracts. Workers are under pressure to constantly improve productivity while maintaining high quality. As Thierry always reminds employees 'the quality of our food is our USP, because we do not see customers face-to-face or serve them their meals'. Most TK employees are shareholders in the company. Annual productivity bonuses are paid in TK shares.

Kitchen 2 – a problem kitchen

Kitchen 2 is one of TK's kitchens in country J. Kitchen 2 is not performing well because sales have declined over the past six months. The reasons for this are unclear. Kitchen 2 sells TK's main menu items and has a maximum capacity of 2200 meals per day. The average daily output is 1000 meals but Saturday is the only day when all the meals produced are sold. Kitchen 2 is located in a low-income area and the average order value is lower than for other kitchens. Thierry has asked for further financial information about Kitchen 2. Details of this are shown in Table 1.

Table 1: Financial data for Kitchen 2 for the last 6 months

	$m
Revenue	1.40
Cost of sales (ingredients and packaging)	0.38
Variable labour costs	0.80
Variable delivery costs	0.01
Rent and fixed utility costs	0.20
Head office costs including marketing	0.02

Table 2 shows extracts from TK's financial data for 2021.

Table 2: Extracts from TK's financial data 2021

	$m
Revenue	25.40
Operating profit	3.98
Profit for the year	3.18
Total annual dividends	1.50
Non-current liabilities	15.00
Capital employed	30.00
	$
Share price at year end	14.00
Dividend per share	1.20

Further developments

The directors of TK would like to diversify the activities of the business. They are considering two possible options for this. They will need to make a strategic choice as it will not be possible to carry out both projects.

Option 1
Start a chain of luxury TK restaurants in the European cities where the kitchens are located. The restaurants would offer new menu choices including local speciality dishes.

Option 2
Extend the TK product range to include packaged vegetable snacks. This would involve the takeover of a small manufacturer of premium snacks.

A summary of the strategic choice data is shown in Appendix 1.

Appendix 1: Strategic choice data for options 1 and 2

	Option 1 TK luxury restaurant chain	Option 2 Takeover of snack manufacturer
Initial cost	$4m	$2.5m
Estimated accounting rate of return (ARR)	9.1%	7.6%
Main driving force	Market for luxury restaurants may grow as economies recover from recession	Can be sold and delivered with existing meal delivery service
Main restraining force	Ability to respond to high level of competition in the market	No experience in packaged snack production
Estimated chances of failure	35%	30%
Estimated monetary value over five years	$3.5m	$2.2m

BLANK PAGE

BLANK PAGE

BLANK PAGE