Cambridge Assessment International Education

Cambridge Pre-U

BUSINESS AND MANAGEMENT **9771/02**

Paper 2 Strategic Decisions **May/June 2022**

3 hours

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You must answer on the enclosed answer booklet.

You will need: Answer booklet (enclosed)

INSTRUCTIONS
- Answer **all** questions.
- Follow the instructions on the front cover of the answer booklet. If you need additional answer paper, ask the invigilator for a continuation booklet.

INFORMATION
- The total mark for this paper is 100.
- The number of marks for each question or part question is shown in brackets [ ].

This syllabus is regulated for use in England, Wales and Northern Ireland as a Cambridge International Level 3 Pre-U Certificate.

This document has **8** pages. Any blank pages are indicated.

Read all the case study material and then answer all of the questions which follow.

Greggs

Introduction

John Gregg set up in business 80 years ago with one goal, to deliver fresh eggs and yeast to Newcastle households. After 10 years, he opened a shop called Greggs of Gosforth. This shop, although much changed, is still open but is now part of a chain of almost 2000 Greggs outlets.

Over the last 10 years Greggs has invested heavily in transforming the business. Until 2013, Greggs was best known as a retailer of bread, buns and cakes. These are products that are difficult to differentiate from those of competitors. Supermarket chains selling bakery goods at very low prices remain Greggs' main competitive threat for these products. However, by investing in a completely new product range and by redesigning its shops, Greggs has transformed itself into a 'food-on-the-go' retailer. Indeed, the company's vision is 'to become the customers' favourite for food-on-the-go'.

The Greggs' sausage roll is one of the nation's most popular snacks, selling over one million each day. The company has developed, in response to customer demand, a wide range of vegan, gluten free and healthy product options. Greggs has started producing vegan hot cross buns, vegan 'sausage' rolls and vegan 'steak' bakes. These changes in strategy required long-term capital investment. Greggs achieved an increase in revenue of over 50% between 2013 and 2019 during a period of steady economic growth in the UK.

Central London costs too high

Greggs has few shops in central London. It is claimed that the fixed costs of such operations are so high in the capital that break-even would be unlikely. It is estimated that the annual fixed costs of a retail unit of the size of a typical Greggs shop is £350 000. With an average customer spend of £3.20, even with direct costs per customer as low as £1.80, the number of customers needed to cover all costs would, in most central London locations, be too high.

Corporate social responsibility (CSR)

Greggs frequently publicises what it believes is one of the most significant range of CSR policies in its industry. The CSR programme has five areas of focus, with a clear commitment for each one. These commitments are delivered through a series of projects with measurable targets. The company claims that these targets ensure that the business brings benefits to 'people who shop with us, work for us, supply us, or live near us'.

The five CSR areas of focus are:

- Customers' health
- Environment
- Responsible sourcing
- People
- Community

Some extracts from Greggs CSR statement are below:

Customers' health: Greggs serves food that's free of the nasty stuff – we don't use artificial colours, flavours, added trans fats or monosodium glutamate. This all comes down to wanting for you, our customers, the same as what we'd want for our own families.

Environment: We aim to use energy efficiently and minimise waste because we know climate change is a real threat. At Greggs, we make most of our packaging easy to recycle.

Several of our regional bakeries have photovoltaic panels on their roofs, which in 2016 generated 923,576 kWh of electricity. Our new self-service drinks fridges have doors to stop the cool air being lost. All of our manufacturing site waste is diverted from landfill. We aim to redistribute as much unsold food as we can from our shops to deprived groups through our food donation programme.

Our people: At Greggs we are committed to treating our employees equally and ensuring that everyone, no matter what their background, has an opportunity to develop. At Board level we have exceeded government guidelines with 43 per cent of our Board being women.

We pay all of our people more than the National Living Wage, not just those over the age of 25. We share ten per cent of our profits with employees and in 2018, we shared a record £9.2 million as a result of our strong performance. We invite our people to join the Greggs Share Incentive Plan, letting them reinvest their profit share into Greggs' shares.

Responsible sourcing: We look after our suppliers, making sure we pay our bills promptly, and pride ourselves on building long-term relationships. Within our operations, we consider human rights in line with our policy commitments.

By sourcing Fairtrade goods, such as tea, coffee and sugar, we are able to support marginalised producers in developing countries by guaranteeing a minimum price and a Fairtrade premium. This secure income allows producers to plan for a more sustainable future and also, in turn, support their local communities through investment in local schools, health care and infrastructure.

Community: Each year we donate at least one per cent of profits to the charity called 'Greggs Foundation'. Together with support from our staff and partners, this share of profits has enabled the charity to donate £2.8 m in 2018 in a wide range of initiatives that improve the quality of life in our local communities. These included the award-winning Greggs Breakfast Club programme which now provides over six million free wholesome breakfasts each year to children in over 500 primary schools.

Greggs' profitability and liquidity

A summary of Greggs' recent financial data is shown in Table A.

Table A: Summary of Greggs' recent financial data (£m)

	2019	2018
Revenue	1167.9	1029.3
Gross profit	755.7	655.9
Operating profit	120.7	89.8
Current assets (at 29 December)	142.3	140.6
of which inventories	23.9	20.8
Current liabilities (at 29 December)	208.7	145.2
Capital employed (at 29 December)	580.1	342.9

Stakeholder groups that want to evaluate Greggs' profitability and liquidity compare accounting ratio results with those of other businesses in the food retailing sector. Selected ratios, for 2019, are shown for Sainsbury's and Starbucks in Table B.

Table B: Selected ratios for Sainsbury's and Starbucks

	Sainsbury's	**Starbucks**
Operating profit margin	3.3%	15.4%
Return on capital employed	7.4%	16%
Current ratio	0.62	0.92

It is likely that when the 2020 financial statements are published, all three companies will report very different results to those of previous years. The ratios based on these results will reflect the impact that the economic recession is having on both profitability and liquidity.

The economic environment

The recession in the UK economy, which started in 2020, was the most serious for 100 years. Unemployment has risen to very high levels and consumers' average living standards have fallen.

Greggs has not escaped the effects of this major economic downturn. All of its shops were closed for at least two months. Around 800 shops were re-opened in early July 2020 for take-away food and drink and the remainder opened at the end of that month. The company expected revenue to be lower than normal for several months. Greggs tried to avoid redundancies. In common with other businesses it had to incur costs of protective equipment and screens for employees. The company has put 'on hold' its expansion strategy.

Many business analysts are predicting that 'shopping will never be the same again'. Many retail companies did not survive the lengthy period of economic inactivity. Some that are still open are considering changing their marketing strategies to respond to the recession and lower living standards. A business analyst has suggested that large food retailers could consider adopting one of the strategies featured in Ansoff's Matrix in response to the UK recession.

It has been reported in the financial media, that the current low level of profitability of many UK businesses might lead to less emphasis being given to corporate social responsibility. Obviously, businesses will still need to meet their legal obligations. However, it has been argued that some CSR policies are too expensive during times of recession and that a greater focus should be given to cutting costs to restore competitiveness and investor confidence.

Section 1

1 **(a)** Refer to the data in lines 20–24. Calculate the:

(i) break-even annual number of customers of a typical Greggs shop in central London. [3]

(ii) annual profit made by this shop if annual customers reached 300 000. [3]

(b) Comment on the usefulness of break-even analysis to Greggs. [6]

(c) Analyse the factors, other than rental costs, that Greggs is likely to consider when deciding on the location of a new shop. [13]

Section 2

2 Recommend a marketing strategy for Greggs at a time when the UK economy is in recession. Justify your recommendation. [25]

3 Evaluate, using profitability and liquidity ratios, the success of Greggs' growth strategy in 2018 and 2019. [25]

4 'Greggs' competitiveness would improve if it reduced its focus on corporate social responsibility (CSR).'

Evaluate this view. [25]

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