



GCE A level

1083/01

BUSINESS STUDIES – BS3

A.M. WEDNESDAY, 15 January 2014

2 hours

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ADDITIONAL MATERIALS

In addition to this examination paper, you will need:

- a calculator;
- a 12 page answer book.

INSTRUCTIONS TO CANDIDATES

Use black ink or black ball-point pen.

Answer **all** the questions.

Write your answers in the separate answer book provided.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets at the end of each question.

You are reminded that assessment will take into account the quality of written communication that involves extended writing in questions 4 and 5.

You are reminded that questions 4 and 5 are synoptic and so will test understanding of the connections between different elements of the subject.

Study the information provided about *Whitbread plc* and answer the questions that follow.

Whitbread Yesterday and Today

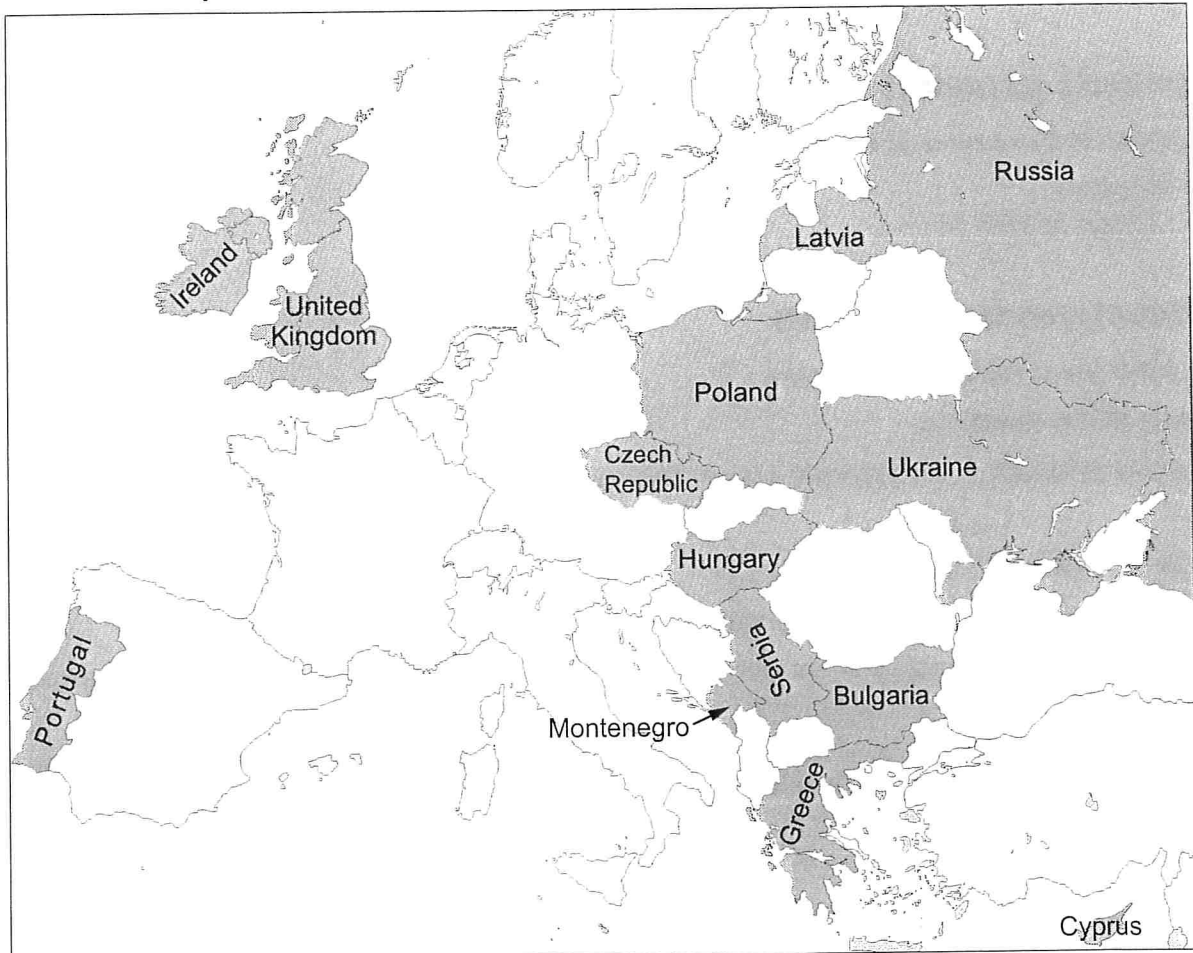
Samuel Whitbread, the original founder of the business, was born in 1720. He began his apprenticeship in 1736 and, for the next few years, learned all about how to brew beer. Samuel founded his first brewery six years later. In 1750 he created the first purpose-built mass-production brewery in the UK, located in London. Over the following years, Whitbread became a household name throughout the country as brewers of fine beer.

In 2001 Whitbread plc changed direction completely. It sold its breweries and left the pub and bar business to refocus on the growth areas of hotels and restaurants. Today the company owns some of the UK's most successful hospitality brands, including Premier Inn, Costa Coffee and four restaurant chains: Beefeater Grill, Table Table, Brewers Fayre and Taybarns.

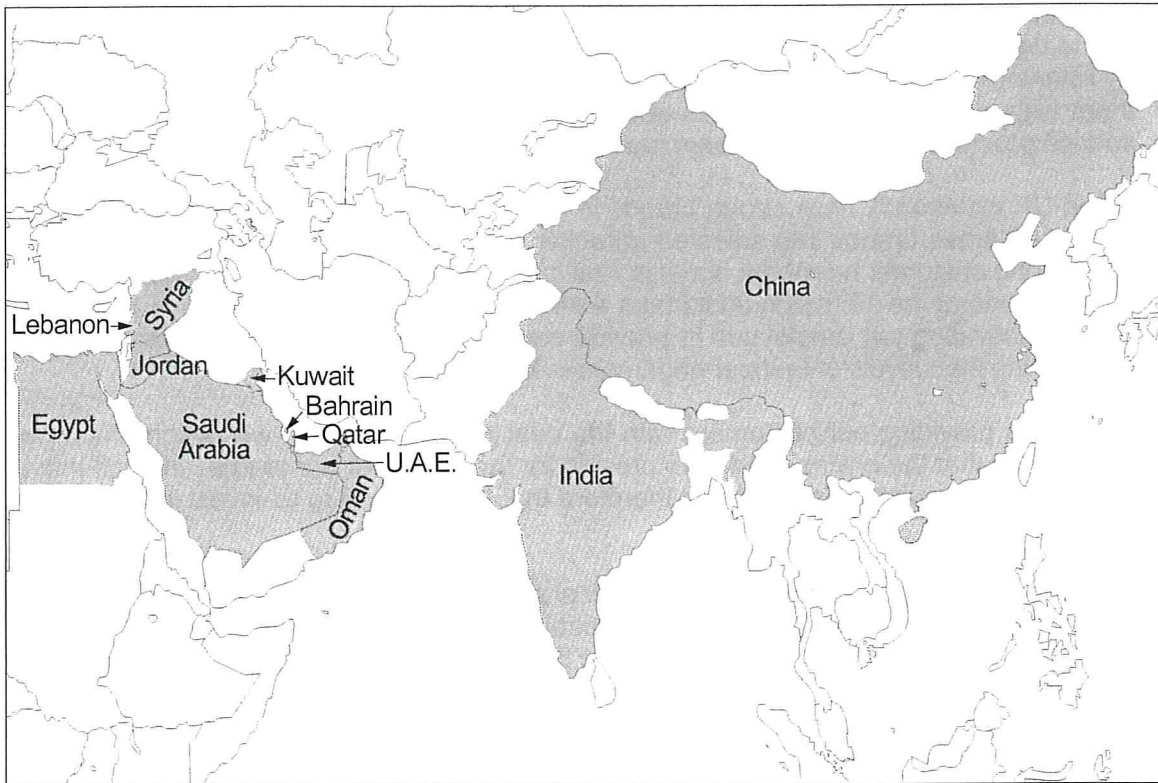
Number of Premier Inn hotels, restaurants and Costa outlets in the UK and overseas		
Premier Inn	Restaurants	Costa
UK and Ireland 640	UK 392	UK 1392
Overseas 12		Overseas 811

Geographical location of operations

Europe



Asia and the Middle East



The countries in grey on the maps represent the countries in which Whitbread plc has either Costa outlets or Premier Inns.

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Whitbread plc's 'Success to Legend' Strategy

15 According to the company, its strategy is to create substantial sustainable value for its shareholders by building strong brands based on consistently delivering **a great customer experience**. Internally it goes under the heading of 'Success to Legend'. This is because a successful company becomes a legend by delivering outstanding results for all its stakeholders decade after decade. The diagram below illustrates Whitbread plc's strategic approach.

From **Success to Legend**



GOOD TOGETHER A force for good

The Whitbread Way Forward

- We will grow legendary brands by building a strong customer heartbeat and innovating to stay ahead.
- Our Genuine, Confident and Committed teams make everyday experiences special for customers so they come back time and again, driving profitable growth.
- Good Together will make us a force for good in our communities.

Source: www.whitbread.co.uk

The company says “we believe that, to achieve our vision to become a legendary business, the customer has to be at the heart of everything we do. Building a strong customer heartbeat is the key to delivering outperformance across all our brands. We build a strong customer heartbeat by listening to and understanding our customers better, providing outstanding value, delighting them with innovative new products and making everyday experiences special through great service provided by our 40 000 team members.

In the UK we already have strong brands in Premier Inn and Costa and we intend to continue to expand those brands into selected attractive international markets. Strong brands are built on a strong customer heartbeat and it is vital that we continue to provide a superior experience for every one of the 19 million customers a month who visit one of our brands. We will achieve this by motivating our employees to provide consistently high levels of customer service, and maintaining high levels of team engagement is key to that aim.

As well as providing our customers with the quality of service that will delight them, we must also ensure that the environments we provide for them, and for our teams, are well-maintained, clean and welcoming. It is important therefore that we continue to re-invest in the quality of our properties.

We intend to create substantial value for our shareholders by delivering on our five-year growth objectives and by increasing return on capital. An integral part of our approach is the Good Together programme. We want Whitbread to be a force for good in all the communities in which we operate”.

Whitbread’s Good Together Approach

“Good Together encompasses a range of corporate responsibility activities including training to enrich the lives of our team members, improving the nutritional content of the food we serve to aid the well-being of our customers and a reduction in energy consumption, which saves the company money as well as having a positive impact on the environment.

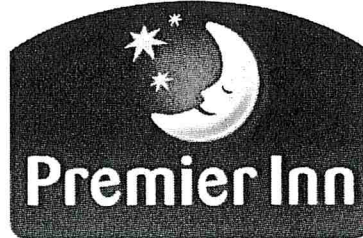
Our ‘Good Together’ people pledges are focused on improving the lives of the people who work for us and the lives within the communities in which we operate. Our aim is to positively impact the following social issues:

- Reducing the skills gap;
- Reducing youth unemployment;
- Championing healthier lifestyles; and
- supporting charities and good causes.
- Our charity target of raising £1 million for WaterAid was achieved in late 2011, helping more than 66 000 people in India gain access to a long-term supply of safe water, improved sanitation and hygiene education;
- This year we have raised £750 000 for the Costa Foundation, bringing our total to £2.5 million enabling the opening of 24 schools, providing education for 14 518 children and jobs for 312 teachers and support staff;
- A further £421 000 has been raised for other charities through our Raise and Match and Payroll Giving schemes”.

Source: www.whitbread.co.uk

Premier Inn

60 Premier Inn is the UK's largest budget hotel chain, with 640 hotels and more than 50 000 rooms across the UK and Ireland.



65 According to Whitbread plc, Premier Inn is passionate about listening to and learning from customers. As well as running regular focus groups, Premier Inn has one of the UK's largest customer satisfaction surveys with over 800 000 responses a year, up 20% on last year. The survey rates customer satisfaction across 200 areas of the business from comfort of the bed to friendliness of the team. Listening to customers in this way has led to some significant operational changes designed to improve the customer experience. Two examples are given in the table below:

What we learnt from our customers	Action taken	Result
Scores for the comfort of pillows were not as high as those for the comfort of the bed.	The pillow specification was changed and customers were given a choice of hard or soft pillows.	Satisfaction scores for comfort of pillows have increased by 15%.
Customers, particularly business customers, told us that they wanted an improved WiFi facility in their rooms.	WiFi access is now free for 30 minutes in Premier Inn rooms.	Satisfaction scores for WiFi have increased by 17%.

70 At the beginning of 2012 Premier Inn changed its marketing strategy from one based on value for money, which had used the slogan "Everything's Premier but the price", to one focusing on a good night's sleep. The actor Lenny Henry became the face of the £6 million advertising campaign. At the same time Premier Inn introduced a more sophisticated pricing strategy. Early indications were that these changes were successful with average room occupancy rates rising from 74.9% to 76.2% and average room prices rising 1.3% to about £55 a night.

Whitbread plc's Restaurants

- 75 Whitbread operate four restaurant chains, as shown in the table below, with most of them located next to a Premier Inn. Table Table and Taybarns are so-called 'concept' restaurants offering several different types of meal under the same roof, e.g. Chinese and traditional roast dinners, for a relatively cheap fixed price, with special deals for children.

Brand	Number of Restaurants
Beefeater Grill	137
Table Table	109
Brewers Fayre	139
Taybarns	7



Pub Restaurant

- 80 According to the company "monthly customer focus groups are a valuable means of gaining insight for the restaurants' team. A direct learning from one of these groups was a better understanding of what customers like about breakfast, which led to greater focus on the choices available, helping to drive breakfast sales up by 14% in the year.

- 85 Restaurants have also increased their Customer Relationship Management (CRM) database to over 770 000 customers, up from 450 000 in February 2011. This provides a targeted way of communicating with customers who are sent three to four emails a month that are relevant to them. Brewers Fayre, Beefeater Grill and Table Table have all launched new websites in the year, where customers can submit online booking requests and find out information about individual restaurants. The new websites have seen traffic increase by over 100% since launch".

Source: www.whitbread.co.uk

Costa Coffee

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Costa Coffee is the largest and fastest-growing coffee shop chain in the UK, with nearly 1400 stores in the UK and more than 800 across 27 other countries, including China (223), Poland (117) and India (96). Some Costa outlets are operated as franchises. The company planned to open 350 stores in 2012/13 putting them well on track to achieve their growth objectives of £1.3 billion sales, 3500 stores worldwide and around 3000 Costa Express machines by 2015/16.

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Central to developing Costa's understanding and insight into the customer has been the introduction of the 'Listen and Learn' scheme across the entire UK chain. Launched in September 2011 'Listen and Learn' provides real-time customer feedback by store. The online survey consists of just six key questions based on the consumer hierarchy of needs. Customers are then able to give feedback on their visit, which is analysed and categorised by the system. This allows Costa to understand what is important to customers and act on their feedback. 97% of all feedback comes from its Coffee Club database, as customers are sent an email on a quarterly basis asking for feedback on their recent store visit.

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Mary Portas, the expert on high street shopping, had this to say, in an article in *The Telegraph* newspaper in April 2012, about the popularity of coffee shops: "if, a few years ago, you had said to the people of Britain that many of them would spend more each year on coffee than on their gas bill, they would have laughed out loud. Many city dwellers, like me, buy at least one or two cups a day, so it's easy to get to an annual spend of £500 plus.

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Britain's 14 000 coffee shops deliver £5 billion worth of sales and the market just keeps growing, at a staggering rate of 12 per cent a year. Britain's biggest player, Costa, wants to expand by 50 per cent, opening another 600 shops by 2016, and the global market leader, Starbucks, plans to open 300 new UK stores, in service stations, drive-throughs and hotel lobbies, taking its total past 1000. Such levels of growth, at a time when so many retailers are closing rather than opening stores, aren't just the preserve of the big boys. Caffè Ritazza, Coffee Republic and many other brands have jumped on the bandwagon".

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Costa Coffee's Success in China

The following extract is from an article by Danny Fortson in *The Times* newspaper, 21 October 2012.

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"You will probably be unsurprised to hear that coffee isn't popular in China. The average Chinese person drinks one cup every four months. That compares with a world average of two cups every three days. Like so many western vices, however, from overpriced handbags to mountains of red meat, the Chinese are developing a taste for the drink. That is the big bet for Whitbread, the group behind Costa Coffee.

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Whitbread Chief Executive Andy Harrison is halfway through a five-year plan to double Costa's global empire to 3 500 outlets – 500 of them in China. He recently agreed to build a third coffee bean roaster at its London plant to feed the Chinese market. The strategy is paying off.

With the share price soaring, investors are happy to follow Harrison's lead for the time being. Yet the company is not without challenges. The Chinese economy is slowing down. Will consumer spending follow suit? If it does, Costa will become more reliant on Britain."

Costa Coffee versus Starbucks

135 The following is from an article that appeared in *The Guardian* newspaper on 11 December 2012.

140 “Costa Coffee sales rose by 7.1% in the last three months against the backdrop of protests and boycotts against its closest rival Starbucks because of the US chain’s controversial tax arrangements. “We have been the UK’s favourite coffee shop for some time; we remain the taxman’s favourite coffee shop too,” declared Andy Harrison, chief executive of parent company Whitbread.

145 More than 40 Starbucks stores were the target of a protest last weekend by the pressure group UK Uncut. Starbucks’s aggressive accounting measures have allowed it to pay just £8.6m in tax since launching in the UK around 14 years ago. Costa UK’s accounts for last year showed similar sales, but a tax charge of £15m.

Starbucks has also been criticised for plans to cut back staff terms and conditions, including cutting paid lunch breaks, sick leave and maternity benefits for thousands of its British workers.

150 Harrison claimed Whitbread’s 40 000 staff were among the most satisfied on the high street and in the hotel industry, with recent workforce surveys suggesting “employee engagement” was at record levels.

Costa’s rise to the title of Britain’s largest coffee shop chain has not been without controversy itself, with increasing signs that some communities do not want the Costa brand on their high street. In October, Costa ditched plans for a store in Totnes, Devon, in the face of fierce local opposition.

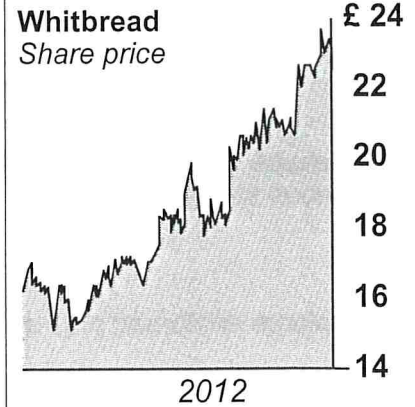
155 Nevertheless, Costa is one of the few high street retailers which still has ambitious plans to add new stores across Britain, creating hundreds of jobs – particularly for young adults who face the toughest job market in generations.”

Whitbread plc's Financial Performance

160 According to the 2012 Annual Report, Whitbread delivered a good performance in 2011/12 in a challenging economic environment. Strong organic expansion, combined with like-for-like sales growth, increased Group total sales by 11.1% to £1 778 million. Premier Inn sales grew by 8.3% to £756 million, restaurants by 1.8% to £483.4 million and Costa by 27.5% to £541.9 million.

Profit and Loss Account for the year ended 4 March

	2012 £m	2011 £m
Revenue	1778	1600
Less Cost of Sales	288	237
Gross Profit	1490	1363
Less Expenses	1144	1053
Net Profit	346	310



Balance Sheet as at 4 March

	2012 £m	2011 £m
Fixed (non-current) Assets	2811	2643
Current Assets		
Stock	23	19
Debtors	85	84
Bank & Cash	40	38
Other	1	4
Total Current Assets	149	145
Total Assets	2960	2788
Current Liabilities		
Creditors	321	280
Other	47	52
Total Current Liabilities	368	332
Long-term (non-current) Liabilities		
Borrowings	530	522
Other	779	692
Total Long-term Liabilities	1309	1214
Total Liabilities	1677	1546
Net Assets	1283	1242
Shareholders' Capital		
Share Capital	147	147
Reserves	1136	1095
Total Shareholders' Capital	1283	1242

1. Explain how Whitbread plc identifies and satisfies the needs and wants of its customers to ensure “a great customer experience” (lines 13 to 14). [10]
2. Using Porter’s Five Forces Framework analyse the current position of Whitbread plc. [14]
3. Analyse and evaluate the financial performance of Whitbread plc. [12]
4. Evaluate Whitbread plc’s ‘Good Together’ approach (lines 38 to 57) from the point of view of its various stakeholders. [12]
5. Evaluate Whitbread plc’s strategy of global growth. [12]

END OF PAPER