

**AQA
Business Studies
Units 2 and 3
Case Study for June 2005
Chinatown**

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28 March 2005



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Introduction

These resources are aimed at helping you to get to grips with the AQA Business Studies Case Study for the June 2005 exam for Units 2 and 3. It has been prepared in the form of a dialogue between Jack Wei and an interviewer. This approach allows us to take all of the issues that arise from the case and give Jack's point of view (as we see it anyway!). This dialogue is entirely fictional since Jack doesn't exist and neither does the interviewer.

There will be six interviews overall: one for each section of the case study. The titles of each interview will be

- ◇ **The Beginning**
- ◇ Great Leap forward
- ◇ From tertiary to secondary
- ◇ Making it happen
- ◇ Running the business
- ◇ Another step forward?

The interviews will be released at weekly intervals from now on with this first interview, the beginning, being released on 28 March 2005.

The case itself is the copyright of the AQA Board and can be downloaded free of charge from this address: <http://www.aqa.org.uk/qual/gceasa/qp-ms/AQA-BUS23-W-PM-Jun05.pdf>

We are using the case study as the basis of all of the interviews but are then adding our analysis of the case plus a wide variety of additional materials that we feel are appropriate for a full analysis of it.

The Beginning

AQA Chinatown Case Study June 2005

Analysis by Duncan Williamson working in collaboration with Chris Sivewright

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Ling Man came to Britain from Hong Kong in 1994 and met and married Jack Wei, a fellow restaurant worker. Jack was bullied by his boss for some reason and when Ling asked him why he didn't just leave, Jack explained that he was half way towards saving enough to start his own business, and nothing was going to stop him ... she fell in love with him from that moment on as she realised that Jack had spirit and a dream and that he was the kind of man she had come to England to find!

Interviewer: So Jack, you have always been driven to working for yourself haven't you?

Jack: Yes. Even when the work was really difficult and my boss made my life a living hell, I always told myself, 'Don't worry, you'll be on your own one day.'

It worked and here I am now sitting in my own restaurant ... with my beautiful wife Ling Man ... and you!

Interviewer: I'm interested in your first restaurant Jack. When I look at your figures I see that you decided to open up in Lisle Street and you found somewhere really cheap to rent. Didn't you think that these two ideas together would cause you problems?

Jack: Not at all because I had a lot of self belief. I know that I work hard and I work smart (see, I didn't go to business school but I know the jargon!). I knew that my boss was getting rich from my efforts so I had no problems thinking like that. I knew it would be a challenge but I knew that I would beat it.

The rent issue is interesting. You know that my community is a self contained community and even though I was trying to provide all of my own finance, I could use my friends and contacts to help me out. I found an empty building and tried my best! My cousin helped me a lot and even though he said his reward would be my success I insisted on paying him interest on a commercial basis.

It also helped me that Ling stayed in her job so that we at least had some money for ourselves.

Interviewer: I assume that it's that independent streak and approach to your business life that made you start out as a sole trader?

Jack: No doubt. Ling was working hard in her job and with me as well and I did the rest of the organising and controlling. I didn't need anyone else at that time because I had secured finance from my cousin and he was happy to let me sink or swim. Also I needed to make sure my ideas worked ... then I would only have myself to blame if it went wrong. I wouldn't be looking at my partner and accusing him or her. I was ambitious too and felt that I couldn't afford to share the profits with anyone else *and* build my own little empire.

Interviewer: Even so, you opened your first restaurant in the late 90s and the rent of £6,000 was very competitive wasn't it?

Jack: You should have seen the building! You probably know that I had to spend a lot of money on refurbishment before I could open up: that helped me to negotiate a competitive rent!

Interviewer: OK, but then you are on record as saying that your break even point was only 300 covers a week. You also realised that you reached your break even point by midnight on Tuesday in an average week.

Jack: Here are the figures I was working with and my bank balance at that time confirmed what I told you!


- ◇ annual rent £6,000
- ◇ I borrowed half of the refurbishment costs of £22 000 from my cousin
- ◇ and paid interest rate of 15%.

Interviewer: In that case, if you break even at midnight on Tuesday, I reckon that you were earning a contribution of around £0.49 on average for every diner you served. Here are my workings:

Jack's break even calculation:

$$\frac{FC}{CONTRIBUTION} = 300 \text{ COVERS}$$
$$= \frac{(\pounds 6,000 + (\pounds 22,000 \div 2 \times 15\%))}{52 \text{ WEEKS}} \div X = 300 \text{ COVERS}$$
$$= \frac{\pounds 7,650}{52 \text{ WEEKS}} \div X = 300 \text{ COVERS}$$

∴ $X = \underline{\underline{\pounds 0.4904}}$ CONTRIBUTION PER CUSTOMER



Jack: Yes, that's how I did it too so it must be right!

Interviewer: I am a little puzzled though because you only seemed to have two fixed costs: the rent and the interest payment. Nothing else?

Jack: Not really. Remember it was what you might call a shoestring operation. The food and service were the most important things after we had got the property and made it look good. So we worked on a purely variable cost basis after that.

Interviewer: You are aware that the rent for that restaurant today would probably cost you between £4,000 and £6,000 a MONTH aren't you?

Jack: I think you realise that I was born to be a businessman!

Interviewer: Your choice of name for your restaurant *Jack Lisle* is odd, if you don't mind me saying so, Jack. Just take a look at the names of the Chinese restaurants in Lisle Street today: I took this list from www.upmystreet.com

Lisle Street: North Side of the Street

Mr King's Restaurant	Chinese and Oriental cuisine
London Hong Kong Restaurant	Dim Sum and full Chinese menu
Golden Dynasty	Fine Chinese cuisine.
Fung Shing	Specialists in Cantonese cuisine
Element Oodle Noodle	Air conditioned
Super Star	Chinese restaurant
Mr Kong	Chinese restaurant
Young Cheng	Chinese restaurant
New Diamond	Chinese restaurant
Hing Loon	Chinese restaurant
Imperial China	Chinese restaurant

So *Jack Lisle* wasn't very Chinese or traditional was it?

Jack: Not at all. Then again, apart from my food, there's nothing traditional about me either. I want to be good and different. I decorate the restaurant in the Chinese way, I prepare and serve food in the Chinese way and I am Chinese. However, I wanted the name to tell everyone that Jack Wei's place is a bit out of the ordinary. Here are a few things that they said about me at the time ... I kept the cuttings!

Food	Service	Atmosphere	Value
8.6	7.3	7.6	8.5

Just come back from a trip to the west end, visited Jack Lisle's for the first time (saw it in the Evening Standard). WOW! what a fantastic restaurant! The food was so authentic, the service was outstanding and the atmosphere was just buzzing! No wonder they were nominated for an award in the Evening Standard Restaurant Award, I thoroughly recommend it!

Diane M

The food is excellent. I find the service a bit average though. I guess it must be because of the high turnover of customers.

Anon

Fancy pure Chinese food? I really recommend this place because firstly, it's not expensive like other Chinese restaurants that rip you off in China Town. Secondly, the food is very delicious and served hot! Also, most importantly the service. They're always around to pour your cup of Chinese tea. Talk about great service, and the waiting time for meals is literally a matter of 5 mins. My favourite dish here is always either a "Shrimp stirfried noodles" and "Roast duck in vermicelli soup"

You will find a lot of students eating out here. Not bad for a place to check out hot looking babes or hunks! j/k. The foods really good. Did I mention that already?

Location: At end of street of China town and make a left, but you have to look up to see the sign

jill

Ordered a takeaway for a special occasion and they failed to give us half of the meal, even though it had all been paid for. When we called them, they helpfully told us that the rest of the meal was "in the restaurant". Net result was half the food was cold, the meal was ruined and we won't go there again. Great job, guys!

Disgruntled

After picking a restaurant in Lisle St we were told it was to late and they were closing, how ever the staff member gave us a card for this one (Jack Lisle) which is open till 4am. Our fears of a small dingie restaurant full of drunken louts was soon proved wrong. What a nice place with nice staff and excellent food. We went in at midnight and left at 2.30 am and the place was still packed, i would say this one has a good reputation amungst the locals and seems to have some what of a cult following. Would definatly go back-- love the seating pews aswell...

Darren Collier

Pros: Reasonable food at a reasonable price, quick service. Also open till 4am, perfect after a drunken night out!

Cons: me and a friend have been there many times and although the head waiter recognises us, a simple "hello, how are you?" would be nice. Petty I know but hey theres got to be cons for their to be pros!

Geebus2000

Very good food: went with a friend from HK who knows his stuff & we both thought it was v. good.

Service: as you'd expect from a Chinese restaurant

Value for money: good. Food was very well cooked & had a great variety on the menu.

Anon

My English is not that hot but I think it's better than some of our English guests as you can see!

Interviewer: I see you kept the negative and the positive comments, Jack.

Jack: Of course, I don't want negative but we know that we can't please everyone so we use their experience as motivation to achieve our perfection. So we do something bad for you and you tell your friends who won't come here. We solve all bad problems.

Interviewer: One thing that still puzzles me, Jack, is the crime rate in the area. Weren't you worried that you would be robbed, burgled, burned down? Just look at what I found:

	Area	National Average
Theft from a vehicle offences	22.7	10.0
Theft of a motor vehicle offences	7.3	4.5
Burglary dwelling offences	9.3	6.4
Robbery offences	7.5	1.4
Sexual offences	3.6	0.9
Violence against the person	50.1	16.5

<http://www.upmystreet.com/inf/sin/det/?l1=WC2H+7BA>

Jack: Yes, not pleasant but then again I had to be somewhere near China Town to be competitive and visible and as we've already discussed, there are already lots of Chinese restaurants in Lisle Street so I reckoned that with our close knit community we'd survive. Of course, we had to take precautions. Why do you think I am a martial arts brown belt?

Excuse me, give me a minute please (he switches on his computer and rattles away at the keyboard for a minute or two): look at this:

	Area	National Average
Total Population	181,279	49,138,831
% of population:		
aged 0-19	17.33%	25.05%
aged 20-34	34.38%	20.37%
aged 35-49	20.90%	21.27%
aged 50-64	15.03%	17.42%
aged 65+	12.36%	15.89%

These figures are from the first release of the 2001 Census data, released in September 2002

<http://www.upmystreet.com/overview/?l1=WC2H+7BA>

You see, we also knew our resident population profile and that tourists flock to this part of London. I like to think that I knew what I was doing and the risks I was taking. Look carefully at this profile and work out the disposable income of that lot! Tourists have money to spend too!

Interviewer: I never see any adverts for your business: am I missing something?

Jack: Not at all! It's always been my policy that we would attract business in two ways.

- ◇ The quality of our food and our service
- ◇ Passing trade

I always said that if we can't win business by personal recommendation (that's exponential by the way!) we don't deserve any success.

Secondly, tourists, students and other visitors are bound to walk down Lisle Street and I knew we were at least as attractive as everyone else from the outside.

Interviewer: ... er, exponential, Jack? What do you mean?

Jack: Your English not so hot either! What I mean is, you come to my restaurant and like it so you tell a friend ... who tells a friend ... who tells a friend. Plot that on a graph and you'll soon see what exponential is. It has worked for us!

Interviewer: I heard that your kitchen in Lisle Street was a bit small and cramped. Didn't that cause you Health and Safety problems?

Jack: That was the worst part of the job. People were always bumping into each other. We even had accidents as one or two of our flamboyant chefs would nick their friends with their cleavers from time to time as they flounced around their work stations!

We tried our best and installed big extractor fans to make the place comfortable even though temperatures could exceed 100 degrees in the summer. We organised shifts of

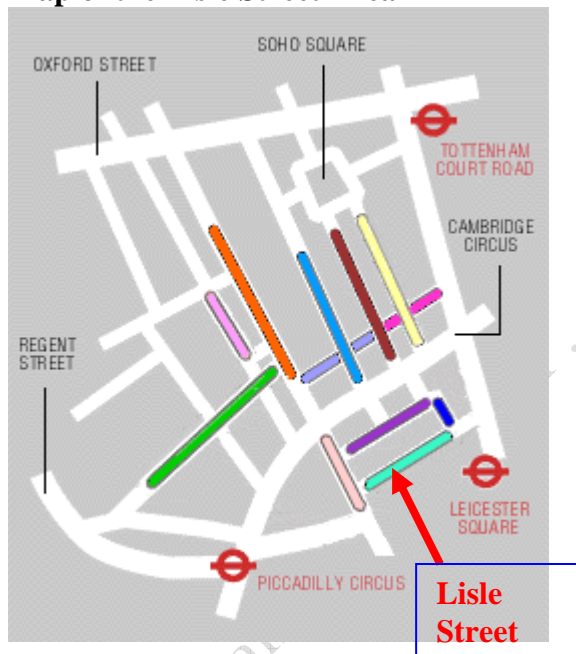
under chefs to prepare the vegetables for us in advance of opening time and we paid well above average wages, as much as 20% more, as a thank you and incentive for all of their hard work.

The worst part of that was preparing too many of our ingredients in advance because it's not the Chinese way. We like to be fresh, fresh, fresh; but we did it under strict conditions and used only the very best ingredients at all times.

We solved the problem in the end by moving out! We were successful and I am really grateful to everyone who worked with me and helped me to establish this business.

Interviewer: Our readers might like to know a bit more about Lisle Street, Jack, even though you are no longer there. They might like to wander down there to see what's on offer. I'll insert this map into this article.

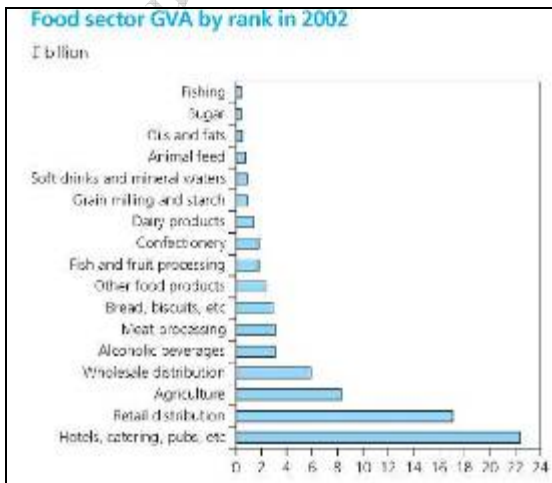
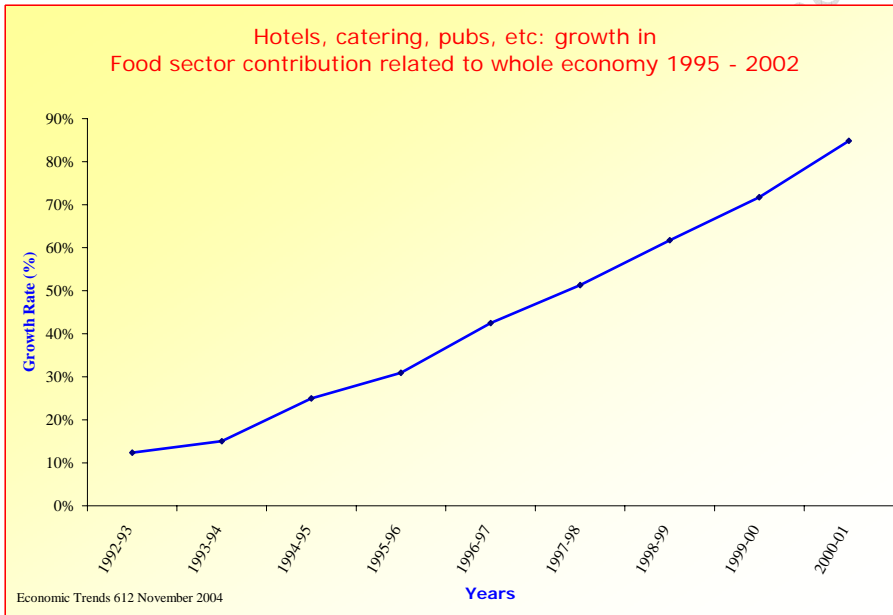
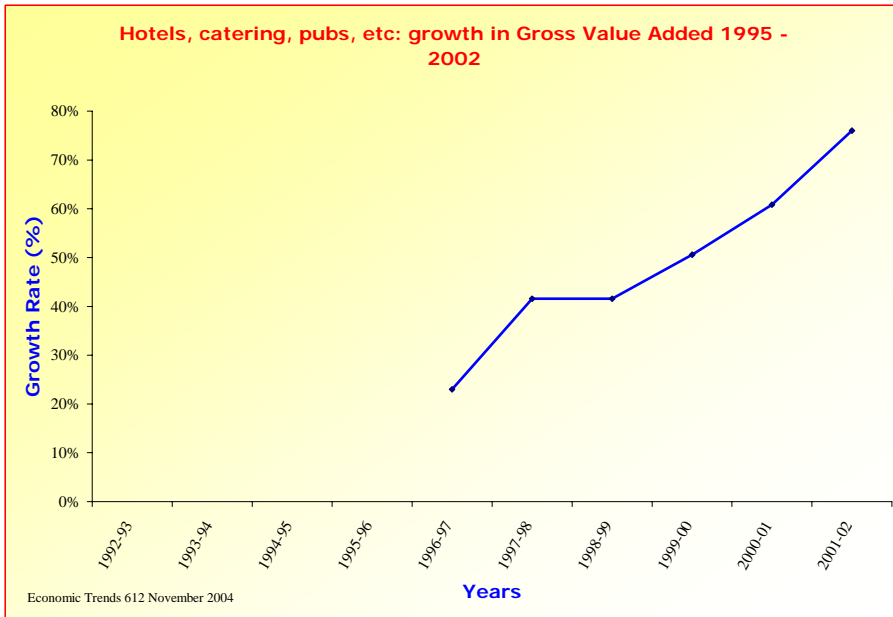
Map of the Lisle Street Area



Jack: Good, why not? That should help my friends who are still there: we don't compete in the same way any more so it must be good for them.

Interviewer: I did some background reading on the catering industry in general Jack and you seem to have moved into the catering trade at the right time if we look at the growth of the hotel, catering and pubs etc sector of the UK economy:

Food sector statistics at a glance	Growth rates (%)										
	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	1995-2002
Contribution by food producing industries to:											
Gross value added											
92 Hotels, catering, pubs, etc	n/a	n/a	n/a	11.1	10.7	15.1	0	6.4	6.8	9.4	75.9
Cumulative Growth Rate					22.99%	41.56%	41.56%	50.62%	60.86%	75.98%	
Food sector contribution related to whole economy											
92 Hotels, catering, pubs, etc	6.7	5.3	2.4	8.6	4.8	8.8	6.2	6.9	6.2	7.6	84.8
Cumulative Growth Rate		12.36%	15.05%	24.95%	30.94%	42.47%	51.30%	61.74%	71.77%	84.82%	



	Turnover per restaurant	Purchases per restaurant	Employees per restaurant	Employment Cost per restaurant	Capital expenditure per restaurant	Purchases as % of Turnover	Employment Costs as % of Turnover
1995	203,607	121,718		42,941	12,195	59.78%	21.09%
1996	215,809	123,439		45,171	12,053	57.20%	20.93%
1997	231,930	131,428		51,166	13,983	56.67%	22.06%
1998	245,337	138,187	11.02	57,628	17,555	56.33%	23.49%
1999	252,747	141,708	10.89	59,754	18,236	56.07%	23.64%
2000	282,479	154,918	10.99	64,559	22,882	54.84%	22.85%
2001	298,976	162,332	11.49	72,008	23,236	54.30%	24.08%
2002	298,859	158,649	11.72	74,089	20,556	53.08%	24.79%
2003	306,802	169,665	11.90	77,365	16,695	55.30%	25.22%

Annual Business Inquiry at <http://www.statistics.gov.uk/abi/>

	Number of restaurants
1995	46,575
1996	46,379
1997	46,984
1998	48,362
1999	49,955
2000	51,395
2001	52,633
2002	54,340
2003	55,645

Annual Business Inquiry at <http://www.statistics.gov.uk/abi/>

Jack: I knew what I was doing! Of course, I couldn't know what would happen to the rest of the industry but what you are showing me is no surprise. The restaurant trade has been booming and I have been a part of that and of course I'm happy that I did come along at the right time.

By the way, I like the way you've given me the growth rates as well as the raw data because that's one of the key things I look for these days ... we're back to exponential again! Just look at the first table you have given me *Food Sector Statistics at a Glance*. You can see that over the period 1995 - 2002, the gross value added of the sector grew *in total* at an overall compound rate of 76%. The growth rate of the contribution of the sector as a whole for the period 1992 - 2002 was 85%. That's impressive isn't it?

That graph *Food sector GVA by rank in 2002* confirms what I've just said: I really struck lucky but then again so did everyone else! I wasn't alone in starting a new restaurant and my next big decision, to move to a larger restaurant, almost cost me everything.

Interviewer: Well, right on cue, we have to leave it there for now Jack but we can discuss what you did after Lisle Street during our next appointment, next week.

Jack: Good, no problem. I think these interviews are useful for me too because you're asking me about things that are making me think about what I'm doing. You are welcome at any time. Would you like some Chinese tea?

Interviewer: Yes please!

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