

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

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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 the 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.

Part Three: From tertiary to secondary

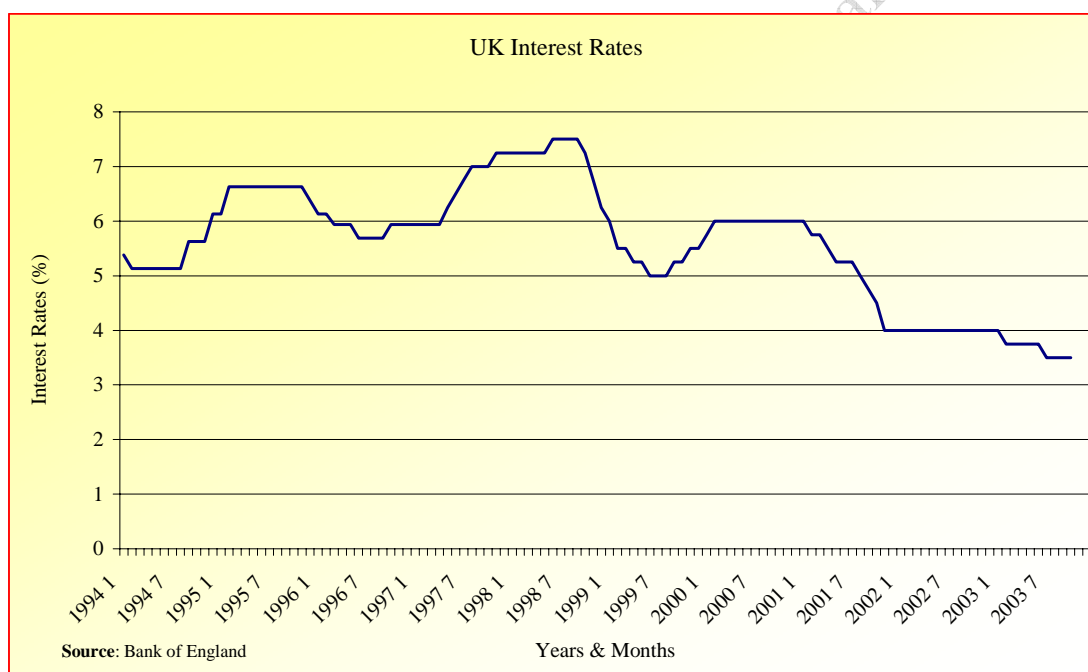
Interviewer: Thank you for seeing me again Jack, it's very good of you. Can I ask you a question relating to something we talked about in our first interview?

Jack: Not a trick question is it?

Interviewer: No, nothing like that ...

Jack: Just joking!

Interviewer: Oh! Well, one of our readers has asked about the interest rates we discussed last time. You mentioned that your uncle charged you 15% and our reader wants to know why you paid so much as that when rates at the bank were a lot lower. Here, I put a graph together to show you: starting with 1994 which is just about the time you started out.



Jack: Thank you. Mmm, I was paying a lot wasn't I? I knew that to be honest and here's why I did it. Firstly, my uncle is a very good man but he's also a businessman and he taught me a very valuable lesson: business is never easy in the beginning. I took the loan at such a high rate to punish myself to make sure that I would always appreciate that point.

Secondly, I went to a few banks and financiers and was turned down for reasons like, 'We don't know you Mr Wei and we cannot take such a risk.' and 'Looks like a good idea Mr Wei but do you think there's room for yet another Chinese restaurant in Lisle Street?'

I tried to convince them that my cooking was the best but they weren't convinced. In the end my business plan wasn't strong enough for them and I didn't have much of a choice but to take my uncle's offer and advice.

Interviewer: So, Jack, that's a very useful insight for my readers I think, thanks for that. Back to today's topic now if you don't mind. In May 2004 came the next big step in your business story. I heard that you and your wife went to a local function that served so called Chinese food but that you were so shocked at the poor quality and Ling was so angry that she asked something like 'How dare they pretend that this food was anything to do with China?'

Jack: It's true and she almost started to tear the place apart. You see, we are both quality fanatics and Ling was insulted at what someone had done in the name of China. The good news is that she learned a great lesson from the experience. She started experimenting with a few dishes, seeing how they could be prepared for the microwave. After just a couple of weeks, she had learned how to prepare Sweet and Sour Chicken, Beef in Black Bean Sauce and Special Fried Rice that she in a way that she felt happy for me to try. I know Ling is my wife but I was impressed. She needed to make a few adjustments such as stronger seasoning, but Ling had done well.

You see the power of motivation at work here? Lots of people would simply have broken some plates or just stopped going back the place where they had had a back experience but Ling took a very positive step and tried to change things for the better. I believe she did. Let that be a lesson to your readers. I think it was an American politician who said, 'Don't get sorry get even.' Ling got even!

Interviewer: What did you do then, then? You couldn't just leave it there could you?

Jack: Over the next two weeks Ling played around with her recipes and even tried them out on some of our English friends and their children. Then she took a huge step and phoned the head office of the supermarket that had supplied the second rate food.

In spite of her anger and then her success at proving herself right, she got through to the chilled foods buyer and explained her story. Ling was delighted when the buyer proved very keen to meet. It seemed that the supermarket knew about its disappointing Chinese range. I was puzzled at this stage and asked myself why the supermarket was prepared to tolerate something it *knew* was not right and therefore was against its own interests.

The following day, Ling went to the head office, with recipe details, costings and samples for the buyer to try. The buyer chatted and tasted and was clearly impressed. They talked briefly about the likely pricing points for customers (£2.99 was the favourite) and the price the supermarket would be willing to pay for the supplies: it turned out to be £1.25 per packet/meal.

Ling is good at what she does but she's not a businesswoman and she was shocked at the high profit margin required by the supermarket. She was smart enough to realise that there was little room for negotiation.

Interviewer: You must have been very pleasantly surprised at what happened too.

Jack: You bet! We got an even bigger surprise when the buyer started talking about sales volumes as they were interested only in *millions of units*.

Interviewer: Crikey! You couldn't do that from the kitchen in the restaurant could you? What did you say?

Jack: That night we spent hours talking through the implications: me, Ling, my uncle, my friends, my bank manager ... we had three telephones on the go at one time half the night!

We realised that we would need a factory capable of producing at least 20 million portions per year, around about. 400,000 portions a week. At the rate of an average of £1.25 per portion, that meant sales turnover of £25 million a year. And that's from nothing: no previous history, no experience, nothing like this. What was the supermarket thinking? What was Ling thinking? I love my wife very much and would be happy for her to succeed but talk about running before you can walk. It was a monstrous idea.

Interviewer: Did the supermarket know that Ling was working from her own kitchen and her Sanyo microwave oven? More than that, to encourage a complete novice, forgive me Jack, to undertake a multi million portion order from scratch was asking a lot.

Suppose for example that Ling persuaded you, did all the work, started up a factory ... then the supermarket changed its mind of Ling's dishes just weren't popular? What then? Disaster.

Jack: I know that, you know that ... Ling didn't know that. She doesn't think like that. You might not know that according to Chinese folklore, Ling is a Tiger! I am a Horse and could not stop her!

In the meantime, though, the supermarket wanted 10 000 packs of six different dishes to test the market in the south west. I knew that Ling would not be happy unless she tried this.

Interviewer: Even so, 10,000 times six is 60,000 portions of her as yet untested ideas that you had to make. Where, how, by whom ... ?

Jack: That was a problem was: to find a supplier to produce these relatively small numbers. Like a Tiger, Ling hunted down a producer in Stevenage in Hertfordshire. They had the equipment and skills to produce to Ling's precise specifications: they worked really well so luckily for them they never found out just how stubborn and strict my tiger can be.

Interviewer: You must have faced some problems, though, as an order like that doesn't just fall out of the sky all nicely wrapped up in ribbons! Look at your own business and how hard you have had to work at that.

Jack: There was one major problem which was that the supplier insisted on charging a price per pack that was 15p higher than the £1.25 that the supermarket would pay.

I wanted to call a halt, but Ling would not be 'Held back by 60,000 15 pence pieces.' I daren't tell here that there was no such thing as a 15 pence piece! But it wasn't just 60,000 * 15 pence which is £9,000: it was really a total of 60,000 * £1.4 = £84,000.

Well, it was a lot of money but by coming to a deal on supplying some of our own food and finishing other parts of the order ourselves, we went ahead. Thanks to Ling and her tenacity it was a great success: sales rose week by week in the test area.

The supermarket wanted to carry on in that way since they realised that they had found a gold mine. The Tiger bit back! Ling refused to carry on in that way saying that it was time to talk about the contract for millions of units.

Interviewer: I'm astonished: this just doesn't happened does it? I mean, who else and where else would a complete novice turn nothing into a multi million pound contract literally over night?

Jack: Well, within about four weeks Ling signed a contract. She surprised me by successfully negotiating a reasonably quick payment period to help ease her cash flow situation.

Ling became the managing director of the newly formed *Wei Foods Ltd*. This company was formed to operate the new factory; Jack's restaurant remained as a separate business. We found a production site in a disused shoe factory in Northampton.

Interviewer: That's interesting: the objects clause was a favourite of mine when I was a student. I wonder what Ling's objects clause said.

Jack: Objects claws? What's that, a kind of shell fish dish?

Interviewer: No, I mean exactly what the *memorandum of association* says about the things that *Wei Foods Ltd* can and can't do.

Jack: Ah, objects CLAUSE! Sorry! Basically it says run a factory; buy vegetables, fruit and meat; buy wrapping paper and cling film; hire staff; buy, lease and hire equipment; borrow and lend money; run a casino; operate a travel agency ... honestly, these off the shelf companies have weird objects clauses so Ling can do anything she likes. Rally!

Anyway, Ling found and hired a production engineer who has a lot of very valuable experience in the mass production of food. He drew up plans for a combination of batch and flow production, with ingredients such as meat prepared in batches, while vegetables were prepared alongside conveyor belts that allowed the ingredients to flow to the line where the dishes were assembled and packed.

That's it! That's how Tiger Ling got her factory up and running.

Interviewer: I don't know what to say! Ling seems to have broken just about every rule in the business book and the supermarket too. In our discussion next week, Jack, I'd like to talk in much more detail about the factory, its organisation, capacity and so on.

Jack: Good, no problem; but you didn't teach me much today! You are welcome at any time. Would you like some Chinese tea?

Interviewer: Yes please!

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