



Monday 2 June 2014 – Morning

GCSE BUSINESS STUDIES

A293/01/CS Production, Finance and the External Business Environment

CASE STUDY

Duration: 1 hour 30 minutes



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BOWTON SPICE BAZAAR (BSB)

Section 1 – Introduction

Chloe Seaton ran a restaurant in the town of Bowton. In December 2011 she had to close the restaurant because of poor cash flow. Her business was affected by a number of factors:

- there were indications that the UK economy was in recession and consumer confidence was weak 5
- unemployment in the town had risen
- VAT had been raised by 2.5% to 20% in January 2011
- world food prices were rising
- the population in Bowton fell as people who had arrived from Eastern Europe began to return home. 10

In January 2012 Chloe and a friend, Ade Kundele, started the Bowton Spice Bazaar (BSB). Chloe had developed an interest in spices when she had travelled the world after leaving university. She had always experimented with spices when developing dishes to serve in her restaurant. She believed there was a business opportunity to import spices, roast and blend them, and then sell them, even though many other similar businesses already operated in the UK. Ade had experience as a Production Manager in a factory which made caravans. 15

Section 2 – Setting up

Chloe and Ade decided to roast and blend the spices in a factory on the Bowton Industrial Estate. They had considered leasing a factory but decided to take out a mortgage and buy a factory instead. This was an expression of their confidence in their business idea and they also thought that it was a good time to buy property, given market prices at the time. 20

Chloe and Ade needed to buy some specialist machinery for producing the spices. They needed blending machines, and ovens for roasting some of the spices.

Section 3 – Sales 25

During the first year of trading in 2012, BSB was glad of any orders. Business picked up significantly in 2013. The brand was endorsed by a number of celebrity chefs. One leading chef produced a book of main courses and BSB spice blends were used in all of the recipes. By the second half of 2013, BSB was receiving some large orders. For example, one Christmas special order was for 50 000 pouches of spice blends. Fig. 1 shows one of the heat-sealed foil pouches which BSB uses. 30



Fig. 1 A heat-sealed foil pouch used by BSB

BSB's spice blends are sold to:

- three supermarket chains
- several large and prestigious retailers
- a number of wholesalers who deal with smaller, specialist stores
- consumers all over the world, via the Internet
- specific retailers, packaged and labelled as their own brands.

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BSB now produces a range of spice blends. It is noted particularly for its distinctive blends which are sold under the BSB brand. The spices are roasted, blended and packaged in the factory. The spices are packaged either in heat-sealed foil pouches or in glass bottles. The pouches and bottles are bought in bulk by BSB and labels are attached to them to identify the brand and the spice blend. Fig. 2 shows one of the labels used by BSB.

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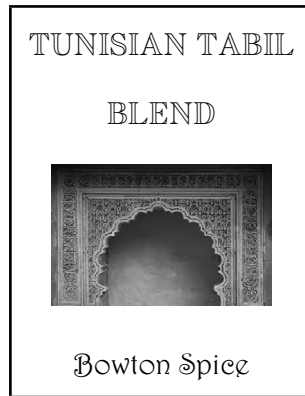


Fig. 2 A label used by BSB

Fig. 3 shows how the total revenue from the sales of BSB's different spice blends was broken down in 2012 and 2013.

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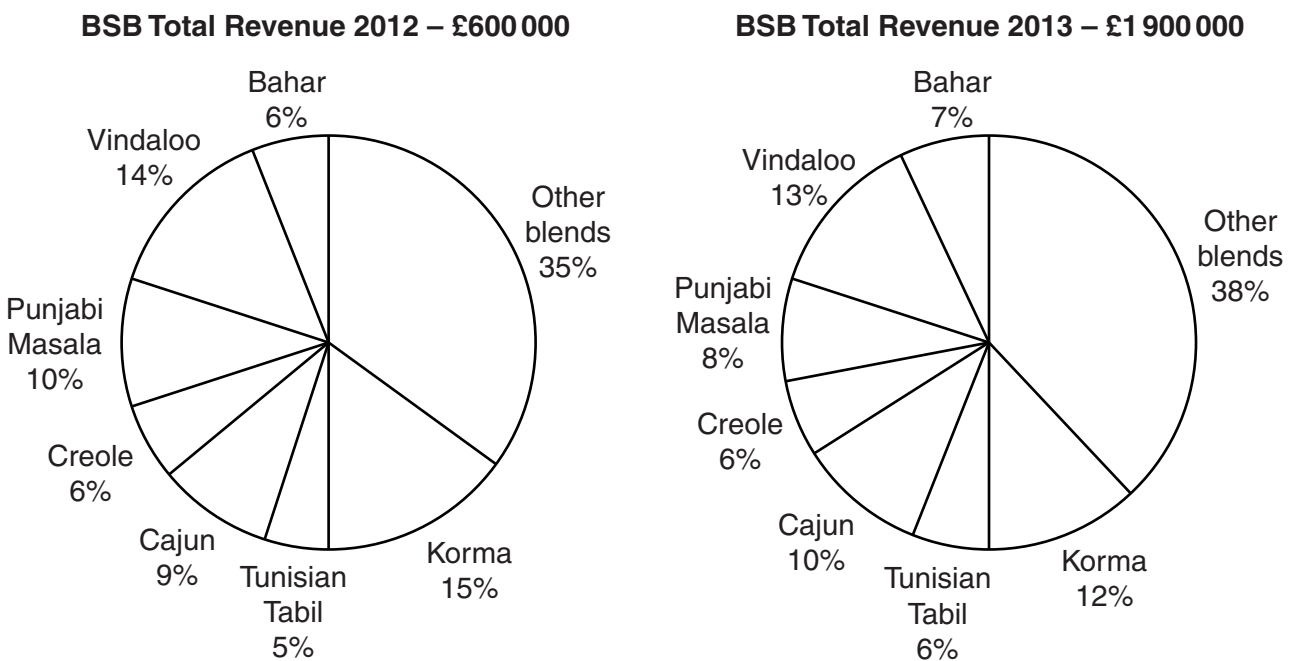


Fig. 3 BSB total revenue from sales in 2012 and 2013

Section 4 – Production at BSB

Fig. 4 shows the layout of the BSB factory.

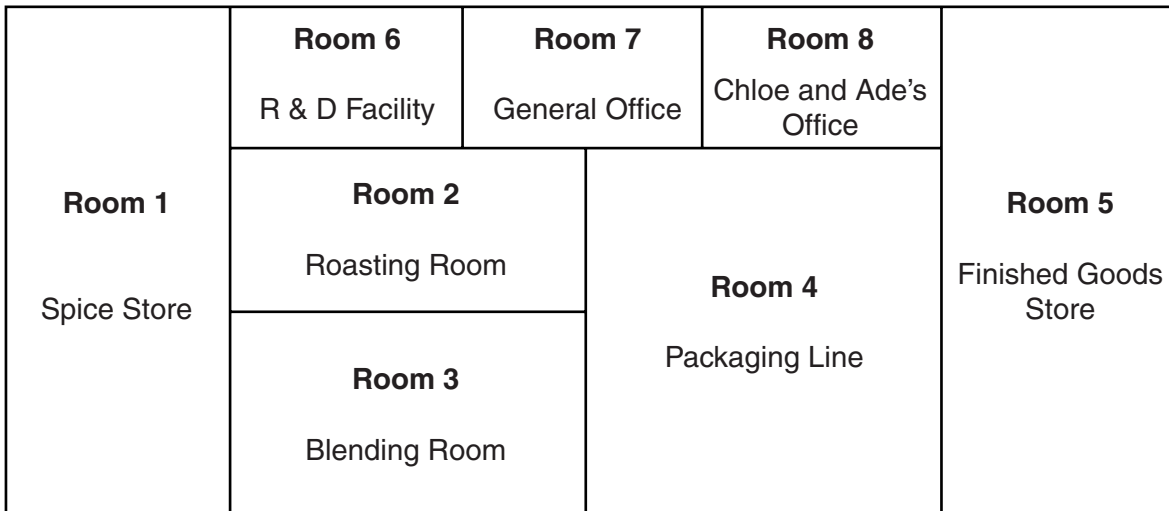


Fig. 4 – Layout of the BSB factory

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Room 1: Spice Store

Some spices are bought on a just-in-time basis when BSB only requires a small quantity of the spice. Other spices which it uses in large quantities are bought in bulk so that BSB can take advantage of economies of scale. Those spices which are bought in bulk are stored in large tubs in this room. Three unskilled workers look after the Spice Store.

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Room 2: Roasting Room

Two skilled workers operate the ovens to roast some of the spices in this room.

Room 3: Blending Room

This room contains the machinery in which the spices are blended. Depending on the blend to be made, spices are brought to this room from the Spice Store and from the Roasting Room to be mixed in the blending machines. The blending process is overseen by two workers highly skilled in blending spices.

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Room 4: Packaging Line

The blends are packed into foil pouches or into bottles depending on the order. The pouches are then heat-sealed. The pouches and bottles are then labelled. At busy times, as many as 35 unskilled workers are employed on the packaging line.

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Room 5: Finished Goods Store

Orders are made up as close as possible to the date for delivery and are stored here ready for despatch. Two packers put the completed pouches and bottles in display boxes which will be used by retailers to show the products on the shelves. They are unskilled workers. Once their work is done, the products are ready for delivery.

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Room 6: R & D (Research and Development) Facility

Chloe uses this facility to try out new spice blends. Chloe uses her specialist knowledge to do research.

Room 7: General Office

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Human Resources and BSB's accounts are dealt with in this office. There are five full-time workers in this office, including a specialist Human Resources Manager and a Finance Manager.

Room 8: Chloe and Ade's Office

Ade spends most of his time on the factory floor managing production. Chloe is often away travelling the world meeting different spice producers or travelling throughout the UK meeting potential buyers.

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Section 5 – Buying spices

BSB buys its spices from several producers in different countries. It buys cardamom from India and Tanzania. Cardamom is also grown in Vietnam, Sri Lanka, Guatemala and Thailand. During the first months of trading BSB experienced how the price it had to pay for spices could change. Firstly, the prices of some spices rose as the demand for them increased. Secondly, the exchange rate of the pound sterling (£) rose against the Indian Rupee (INR) from £1 = INR 70 to £1 = INR 80. This was significant because BSB had placed a large order for cardamom from an Indian company.

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Section 6 – The Moroccan Special

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In late summer 2013 Chloe developed the 'Moroccan Special' spice blend. BSB received an enquiry about an order for 10 000 pouches of this new blend from a supermarket. This order had to be delivered in 2014. Before accepting the order, Chloe needed to know how many pouches BSB would need to sell to break even. She knew the fixed costs for this order would be £5 000. Fig. 5 shows the estimated costs and revenue for producing one pouch of the Moroccan Special spice blend.

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Spices per pouch	20p
Cost of one pouch	5p
Labour per pouch	70p
Labels per pouch	5p
Expected selling price per pouch	£2.00

Fig. 5 Estimated costs and revenue from one pouch of Moroccan Special spice blend

Section 7 – Future developments

Chloe and Ade were really pleased with the progress which BSB had made as it approached the end of its second year of trading in 2013. BSB was firmly in the spice market. Sales had grown significantly. BSB had been able to spread advertising and distribution costs across an increased output. 100

BSB is now struggling to meet demand in its current factory. Chloe and Ade believe there are opportunities for BSB to benefit from further economies of scale if it moves to new, larger premises. Therefore, Chloe and Ade want to have a new factory built. They have identified a possible site on the outskirts of Bowton where a farmer is willing to sell one of his fields to BSB. Chloe and Ade are confident that planning permission will be given by Bowton Borough Council, although there is some opposition to these plans. 105

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