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**BUSINESS AND MANAGEMENT (PRINCIPAL)**

**9771/02**

Paper 2 Strategic Decisions

**May/June 2016**

**3 hours**

Additional Materials: Answer Booklet/Paper

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**READ THESE INSTRUCTIONS FIRST**

If you have been given an Answer Booklet, follow the instructions on the front cover of the Booklet.

Write your Centre number, candidate number and name on all the work you hand in.

Write in dark blue or black pen.

You may use an HB pencil for any diagrams, graphs or rough working.

Do not use staples, paper clips, glue or correction fluid.

**DO NOT WRITE IN ANY BARCODES.**

Answer **all** questions.

At the end of the examination, fasten all your work securely together.

The number of marks is given in brackets [ ] at the end of each question or part question.

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

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This document consists of **8** printed pages.

## Whitbread Group plc (WTB)

### Overview of the company

Whitbread is a FT100 company that has grown rapidly in the past 5 years. It has 3 key businesses within the group: Premier Inn hotels, restaurants and Costa cafés.

1. Premier Inn is the largest budget hotel chain in the UK. The hotel chain has 626 hotels with a total of 48310 rooms. 75% of the UK population live within 5 miles of a Premier Inn. Currently there are only 6 Premier Inn hotels overseas (3 in Dubai, 1 in Abu Dhabi and 2 in India). There are plans for further expansion in these and new overseas markets. Premier Inn rooms are relatively basic and uniform but facilities do include en-suite bathroom, TV and Wi-Fi Internet access. All the hotels have a bar and restaurant within them or in close proximity. 5
2. Restaurants are another key business area. Whitbread owns 4 restaurant chains in the UK. 10

Restaurant name	Number of restaurants	Focus and prices
Beefeater Grill	135	Focus on meat dishes. Mid-range prices.
Brewers Fayre	129	Pub food and selection of buffets. Lower range prices.
Table Table	116	Pub food classics such as the Sunday lunch. Mid-range prices.
Taybarns	7	All you can eat buffet. Higher range prices.

**Table 1: Whitbread restaurant portfolio**

3. Costa is the largest and fastest growing café chain in the UK. Costa can be found in 25 countries and serves 900 cups of coffee across the world every minute. The chain now has 2203 cafés worldwide of which 1375 are UK based. There are also 1172 Costa Express/Coffee Nation self-service coffee machines which are predominantly in the UK, situated in places such as motorway service stations, supermarkets and local petrol stations. A limited number of drive-through coffee outlets are also being trialled. 15

### Refocusing the company

Whitbread started its corporate life as a brewing company. It no longer has any brewing operations. This process of diversification started in 2001 with the sale of all of its breweries to Inbev. This process continued in 2002 when the company sold its portfolio of pubs to Enterprise Inns. The company accepted that the brewing and pub industry was in decline and realised that drastic measures were required. The company used the proceeds of these sales to invest in cafés, restaurants and hotels. A strategy such as this does have its own risks as new markets lead to new competitors, potentially high start up costs and the challenge of acquiring brand recognition. Whitbread operates in different geographic regions, various market segments and in a range of price bands. 20

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## Business strategies

Whitbread is using a variety of pricing strategies within its markets. Costa is aimed at the mid-to-premium end of the coffee shop market and its branding, cafés and pricing reflect this. A large cappuccino is priced at £2.45. The Premier Inn hotels are aimed at the budget end of the market and rely on aggressive pricing and cost leadership with a focus on giving a basic yet functional level of service. The restaurants are spread across various price points. Brewers Fayre is considered to be a value offering whereas Taybarns is seen as more upmarket. Whitbread's services offer a range of prices to appeal to a broad consumer base as consumers' real disposable incomes are under pressure from limited wage growth, higher taxes and inflation. The Office for National Statistics (ONS) has estimated that real incomes in the latter half of 2012 are 13% lower than they were in 2008.

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## Maintaining and improving profits

Cost minimisation and revenue maximisation are key objectives for the Whitbread group and these are very important in order to maintain margins in a competitive market place. One operational area that is currently under review is the length of time a Costa café is closed for refurbishment. The average time it takes to refurbish a Costa café is currently 18 days. Figure 1 illustrates a potential critical path network for the refurbishment of a Costa café which some senior operations managers are keen to introduce. (Note that some of the earliest start and latest finish times are deliberately missing from Figure 1.)

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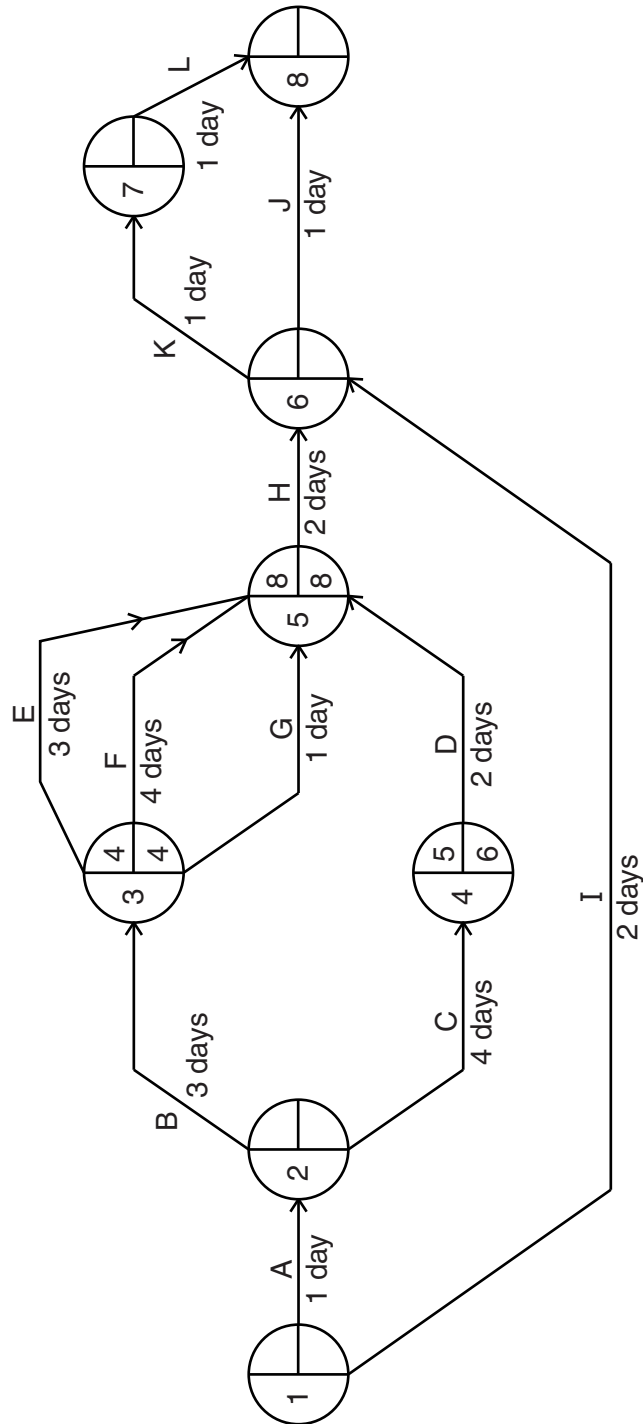


Figure 1: Potential Critical Path Analysis Network for a Costa café refurbishment

Activity	Description
A	Removal of old fixtures
B	Electrical work
C	Plumbing work
D	Internal painting
E	Extra insulation fitted
F	Toilet refurbishment
G	Replace windows
H	Install new furnishings
I	Air conditioning overhaul
J	External painting
K	External branding
L	Install final fittings

**Table 2: Task activities for the refurbishment of a Costa café**

### Employee engagement

Whitbread operates in the service sector of the economy. Accordingly many employees are in constant contact with customers. 31 000 employees took part in the annual opinion survey in 2011. The results can be seen in Table 3. The engagement % indicates the proportion of responders that rate the overall experience of working for Whitbread as very good or excellent.

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	Engagement score 2011	Engagement score 2010	Response rate 2011	Response rate 2010
Premier Inn hotels & Whitbread restaurants	72%	67%	87%	79%
Costa	78%	72%	73%	70%
Total Group	73%	67%	86%	77%

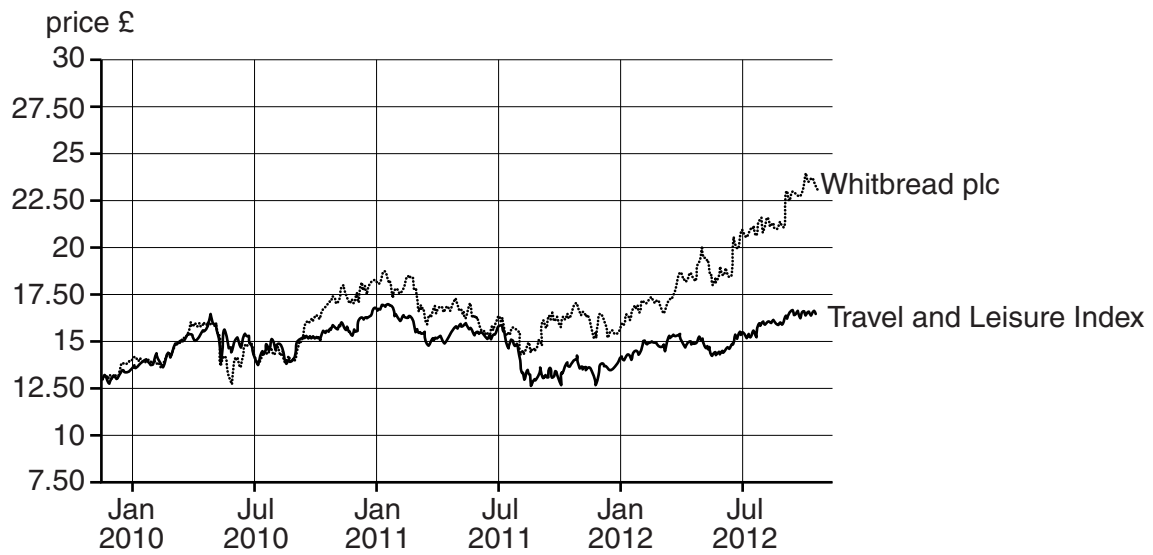
**Table 3: 'Your Say' employee opinion survey results**

The Whitbread group is continuing its ambitious expansion and it is keen to develop its talented employees to become potential managers. 320 employees have so far been through a two-day leadership course. The company is keen to invest in its human capital and Whitbread sponsors some employees to undertake further qualifications. Whitbread realises that recognition of good employees may be by monetary or non-monetary means. The company has an extensive 'Sharesave' scheme which allows employees to buy a certain value of shares at a 20% discount to their market value. Some of the key concerns facing employees, identified in the survey, are the pressures associated with cost cutting and the pension deficit. This deficit has resulted in new employees being denied access to a final salary pension scheme.

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### Appendix 1: Whitbread share price v benchmark



### Appendix 2: Financial summary for Whitbread

Year ending	Revenue (£m)	Earnings per share	Price/Earnings ratio	Dividend paid	Yield
28 February 2008	1216.70	79.23p	16.6	36.00p	2.7%
26 February 2009	1334.60	93.10p	8.0	36.55p	4.9%
4 March 2010	1435.00	90.53p	16.3	38.00p	2.6%
3 March 2011	1599.60	111.79p	15.3	44.50p	2.6%
1 March 2012	1778.00	127.38p	13.2	51.25p	3.0%

### Appendix 3: Revenue performance for Whitbread's core business areas

	Year ending 1 March 2012 £m	Year ending 3 March 2011 £m	Change %
Premier Inn revenue	755.9	697.8	8.3
Restaurant revenue	483.4	479.5	0.8
Costa revenue	538.7	422.3	27.6

**Appendix 4: Selected data from the accounts**

	Year ending 1 March 2012 £m	<i>Year ending 3 March 2011 £m</i>
Net/operating profit	345.7	309.9
Cost of sales	(288.4)	(237.1)
Non-current assets	2811.0	2642.8
Current assets	148.4	140.9
Current liabilities	368.2	331.5
Non-current liabilities	1308.6	1214.2
Total equity	1283.2	1242.0
Pension liability	598.7	488.0

Read all the case study material and then answer all the following questions.

### Section 1

- 1 (a) Refer to the Critical Path Analysis Network in Figure 1.
- (i) Identify the activities on the critical path. [1]
  - (ii) What is the minimum amount of time the refurbishment of a Costa outlet will take to complete? [1]
  - (iii) Calculate the free float of activity G (replace windows). [2]
  - (iv) Calculate the total float of activity D (internal painting). [2]
- (b) Comment on the usefulness of critical path analysis for Costa. [6]
- (c) Analyse the profitability of Whitbread using the case data and appropriate ratios. [13]

### Section 2

- 2 Discuss whether potential investors should buy shares in Whitbread. [25]
- 3 Evaluate the extent to which Whitbread meets its responsibilities to its employees. [25]
- 4 Evaluate a strategy Whitbread could adopt to maintain its expansion during a period of falling consumer incomes. [25]

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