Oxford Cambridge and RSA

Level 3 Cambridge Technical in Business
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Unit 3: Business decisions

INSERT

Monday 16 January 2017 – Morning

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IceCrazy

The business

IceCrazy is a manufacturer of ice cream. Two good friends, Sameer Patel and Janice Williams, set up the business as a partnership in 1999.

The business was initially very small, employing just two staff in addition to Sameer and Janice. Since then the business has grown and the factory now employs 25 permanent staff and up to 10 seasonal staff. The factory is situated on a small industrial estate seven miles from the south coast of England.

The business specialises in supplying high quality, luxury ice cream to a selection of expensive restaurants. In 2016 *IceCrazy* produced 800 000 litres of ice cream and supplied over 500 restaurant customers in the south-east of England.

Sameer's background is in marketing and he takes charge of the marketing and sales functions. He has proved to be especially good at obtaining new clients and retaining their custom. Sameer also oversees the finance and administration functions. Three permanent office employees assist him in his various responsibilities.

Janice is the production expert. She devises the recipes and oversees all production. In addition she manages the workforce. Janice would say that her style of management is 'democratic.' She likes to involve staff in decision making. Sameer has criticised her for being 'too soft' when disciplinary situations have arisen. Many of the permanent staff seem to have a lot of unauthorised days off, and seasonal staff rarely seem to stay the whole season. This has meant that Janice constantly needs to recruit, which she does through the local job centre.

In 2012 *IceCrazy* opened its own ice cream café in the centre of the town. This small café has six tables. It serves lots of delicious sundaes and ice cream combinations using *IceCrazy'*s own ice cream flavours. The ice cream café is managed by Tom, the only full-time member of staff. He is assisted by six part-time staff. Three of these are seasonal employees, employed only in the summer months, who are generally students.

The seasonal nature of the ice cream business means that sales in the café are higher in the summer months. In July and August huge numbers of tourists flock to this popular seaside town. The town is also a very popular venue for hen and stag parties. Large numbers of young people visit the town. It is not unusual for a queue to develop in the ice cream café. Sometimes customers have to be turned away because all of the tables are full and no takeaway options are available. Out of season the town is still busy with visitors, particularly at weekends. In the winter season, between October and the end of April, the café has reduced opening times and is closed on Tuesdays and Wednesdays (apart from the two weeks of the school Easter holidays when it is open seven days a week). During the winter season Tom and three part-time members of staff operate the café, engaging a number of students to help out in the Easter holidays.

IceCrazy has a website, which Sameer keeps up-to-date. It is used to promote new ice cream flavours to the general public, obtain customer feedback and advertise special offers available at the ice cream café. Sameer has also signed up to a number of social media websites but has not yet made much use of these.

IceCrazy have £35 000 in the bank from retained profits.

The Challenge

Despite the recession *IceCrazy* has seen a year on year growth in its profits. However, its annual accounts for the last two years display a worrying trend. Growth is slowing down and in April 2016, the business achieved only a 1% increase in net profit on the previous year.

Sameer and Janice are worried that if changes are not made, profits may fall, putting jobs at risk in the factory and ice cream café.

The Options

Option 1 – Open a bigger café

Move the ice cream café to larger premises. The lease on the current property is due to expire at the end of 2016. Sameer and Janice paid £12 000 for the lease 5 years ago and pay a rent of £9000 per year.

Sameer has investigated bigger premises available for rent in the town centre and has found one not far from the current location. These premises were previously used as a café but considerable modernisation would be needed. There is space for 15 tables. The property has large sliding windows that open onto the busy street. This would allow a take-away kiosk to be opened in the summer months.

The capital budget spend is estimated to be £55 000; £5000 to fit out the new premises and £50 000 to buy the lease. The lease has 10 years to run. Additional revenue expenditure would include £25 000 a year for the rent. Wages for additional staff would also be required.

Capital investment appraisal suggests a payback period of 3 years 8 months, with an ARR of 27% over the first five years of trading.

Option 2 – Offer a range of healthier products

IceCrazy could expand the range of products that it offers. In particular, the business could offer a range of healthier products, such as fresh fruit sorbets and diabetic ice-cream.

This option, Sameer believes, would allow him to expand the product range supplied to restaurants. He believes that, in addition to the current luxury choice of flavours, this new range would help to increase the number of restaurant customers to over 1000 within 5 years. Sameer thinks that this extended product range will be the deciding factor in the decision of many restaurant managers to switch to *IceCrazy*. In addition, the business will have several new markets to expand into including the diabetic market, the weight loss market and the healthy eating market.

The capital budget spend to introduce the new range is estimated at £3000 for new equipment and £4000 for a marketing campaign.

Capital investment appraisal suggests a payback period of 2 years and 3 months with an ARR of 51% over the first five years of trading.

Option 3 – Open a soft play facility with on-site ice cream café

The industrial unit next to the factory is empty and *IceCrazy* could rent these premises, opening a children's soft play adventure zone with a difference. The difference would be the on-site ice cream café, catering for all the family.

Having conducted considerable research into the increasing popularity of soft play facilities, Janice is particularly keen to pursue this option.
Janice believes that she would be able to run the facility assisted by current staff that are employed at the factory. Part-time staff, such as college students, will only need to be hired during busy periods. However, factory employees are concerned about what their new job roles would be and the pressure of an increased workload.

The capital budget spend is estimated to be £80 000 to purchase and fit the soft play equipment, kitchen and café area. Additional funds will also need to be found for planning permission for change of usage for the building. All employees working in the facility must have Disclosure and Barring Services checks (a check on their criminal record). Some employees will need to be provided with first aid training. Janice estimates this will cost £5000.

Janice has been able to negotiate a very competitive rent for the neighbouring industrial unit of £2500 per month because the property has been empty for some time.

Capital investment appraisal suggests a payback period of 5 years and 2 months with an ARR of 19% over the first five years of trading.

Appendix 1

Changing tastes in the ice cream industry

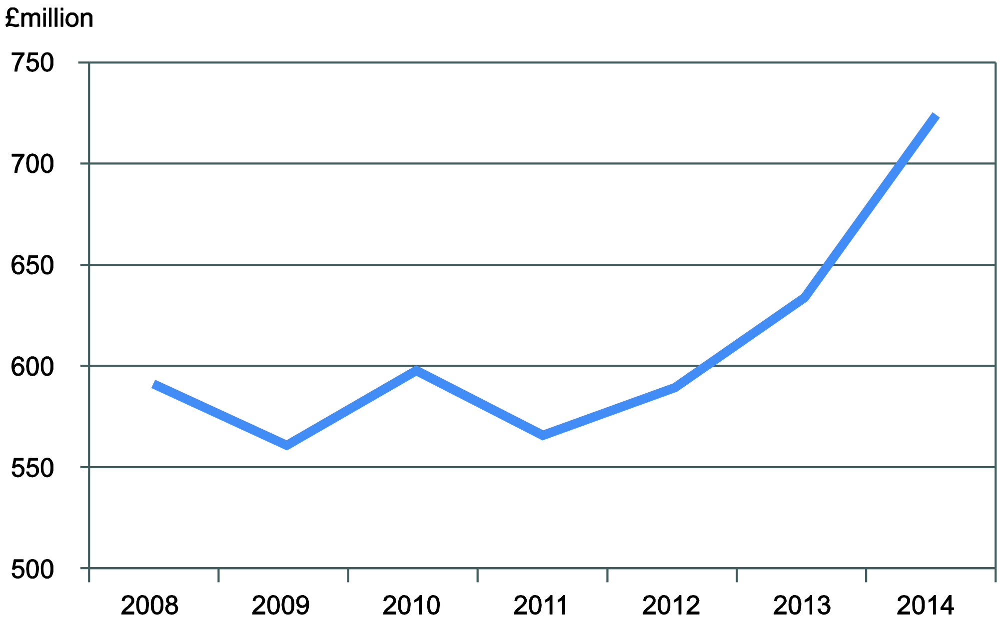
Though classic vanilla, chocolate and strawberry remain the world's most popular ice cream flavours, increasingly health-conscious consumers are moving away from the large tubs of the past to smaller treats. They are turning to niche or upmarket brands with unusual or healthier ingredients.

"People either want unprocessed ice cream with latent, functional health benefits, or people are of the mindset ‘if I'm going to have some ice cream, it's got to be the good stuff’," said a global food and drink analyst at Mintel.

The big ice cream producers have responded with a variety of strategies, including selling off some bulk ice cream businesses, buying start-up brands, introducing new products and pushing into new markets.

Appendix 2

UK manufacturers' ice cream sales 2008 to 2014



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