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# A-level **BUSINESS**

Paper 3 Business 3

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Source 1: Speed-e-Puds Ltd

Sanjay opened the first branch of Speed-e-Puds Ltd after seeing the huge growth in the dessert parlour market during the last 10 years. Driven by franchise brands such as Creams and Treatz, there are now just over 500 dessert parlours in the UK, serving waffles, pancakes and ice cream in eat-in restaurants.

Sanjay has developed a patented waffle maker, the 'SuperWaffler', which cooks perfect waffles in less than half the time of other waffle makers. This innovation is central to Speed-e-Puds Ltd's customer offer – 'desserts as tasty as anywhere, served twice as fast' – a unique selling point that appeals to its target market of young families and teenagers. 5

Despite his engineering background, Sanjay sees himself primarily as an entrepreneur. Sanjay now owns three successful Speed-e-Puds Ltd branches just one year after he opened his first. All three branches are very busy throughout the day, operating at high levels of capacity utilisation. This success has made Sanjay impatient to grow the business further. He believes that a Speed-e-Puds Ltd outlet in 75 cities in the UK would enable him to achieve the marketing objective he has set: 10

Achieve a 15% share of the UK dessert parlour market in the next three years

### **A new product?**

Sanjay is considering offering a new product through his Speed-e-Puds Ltd branches – slushies. These flavoured, crushed-ice drinks are served from a large machine that would take up a significant proportion of the counter in each Speed-e-Puds Ltd branch. Detailed financial information on the slushy machines has been provided by the slushy machine supplier and is shown in **Appendix B**. 20

Sanjay's personal financial objective is to achieve a return on investment of 25% on any money invested in his business.

### **Growth** 25

Sanjay knows that opening new branches is critical to achieve his marketing objective. He faces a choice over which method of growth to use:

#### **Option 1**

Sanjay could retain tight control over Speed-e-Puds Ltd by growing purely organically. All new branches would be part of the Speed-e-Puds Ltd organisation, with Sanjay frequently meeting the managers that he appoints to run these branches. 30

#### **Option 2**

Sanjay could sell Speed-e-Puds Ltd franchises to entrepreneurs who are interested in owning their own Speed-e-Puds Ltd franchised outlet. In return for an initial franchise fee and a monthly payment of 10% of revenue, franchisees would be allowed to use Sanjay's patented 'SuperWaffler'. Franchisees would also receive training and support for running their business and Speed-e-Puds Ltd would provide national advertising of the brand. 35

Sanjay produced a SWOT analysis for his business to help him with the decision provided in **Appendix C**. 40

**Appendix A** Speed-e-Puds Ltd financial data for last year (three branches)

Revenue	£750 000
Operating profit	£200 000
Cash	£20 000
Current ratio	0.2 : 1
Gearing ratio	90%
Total equity	£100 000
Average start-up cost per branch	£100 000

**Appendix B** Slushy machines

Initial cost of buying each slushy machine	£750
Contribution per slushy	95p
Slushy machine supplier's forecast of number of slushies sold per branch per year	3600
Increased electricity usage each year per branch	£3000

The machines are expected to have a useful life of five years.

**Turn over for Appendix C**

**Turn over ►**

### Appendix C Sanjay's SWOT analysis of Speed-e-Puds Ltd:

<p><b>Strengths:</b></p> <ul style="list-style-type: none"> <li>• strong branding</li> <li>• faster cooking and service times than rivals due to 'SuperWaffler'.</li> </ul>	<p><b>Weaknesses:</b></p> <ul style="list-style-type: none"> <li>• reliance on Sanjay's hands-on management style</li> <li>• lower gross profit margins than rivals.</li> </ul>
<p><b>Opportunities:</b></p> <ul style="list-style-type: none"> <li>• the dessert parlour market has grown by an average of 20% per year over the last five years</li> <li>• many cities have no specialist dessert parlour.</li> </ul>	<p><b>Threats:</b></p> <ul style="list-style-type: none"> <li>• healthy eating concerns remain a threat for all dessert parlours</li> <li>• demand is highly income elastic.</li> </ul>

### END OF SOURCES

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