



Oxford Cambridge and RSA

Wednesday 14 October 2020 – Morning

A Level Business

H431/02 The UK business environment Resource Booklet

Time allowed: 2 hours



INSTRUCTIONS

- Use this Resource Booklet to answer the questions in **Section B**.
- Do **not** send this Resource Booklet for marking. Keep it in the centre or recycle it.

INFORMATION

- The business described in this Resource Booklet is a **real** business.
- This document has **8** pages.

DOMINO'S

Domino's is the UK's leading pizza brand (see Fig. 1). Since opening the first Domino's store in the UK in 1985, it now has over 1000 stores across the country. In 2017, it sold almost 90 million freshly made pizzas.

The four largest UK pizza brands (number of outlets in 2018)

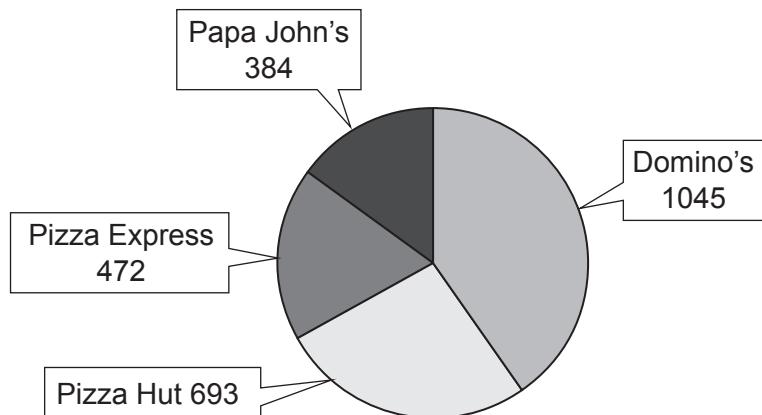


Fig. 1

However, in Domino's report for the first half of 2018 it warned of uncertainty, despite announcing an increase in UK sales of 8.3% and pre-tax profits of £42m. The football World Cup in June/July helped to increase sales, up by 86% on 11th July when England played their semi-final match. The company also reported that it sold 8.2 million pizzas in the UK throughout the tournament. However, the hot weather led to total sales falling during the summer. The company stated:

"Consumers' disposable incomes are flat, and operators in the casual dining sector continue to experience inflationary pressures from the national living wage, food costs and business rates."

Other large businesses in the so-called 'casual dining' market sector faced financial difficulties at the start of 2018, with burger chain Byron, Jamie's Italian, Strada and Prezzo among some high street brands cutting jobs or shutting stores.

There have also been continuing concerns about the health implications of the types of food sold in this sector, at a time when levels of obesity are high in the UK. The government announced a number of measures to try and improve the health of the population, including a greater awareness of what people are eating (see Extract A).

Extract A – Calorie counts to be listed on menus

Calorie counts will have to be displayed on the menus of all restaurants, cafés and fast-food outlets. While some larger chains – including McDonald's and Pizza Express – have voluntarily adopted calorie counts, most smaller restaurants and cafés have not.

New legislation will be introduced to ensure there is consistent calorie labelling for restaurants, cafés, takeaways and online delivery services. Making this information available can help people to make more healthy choices.

Source: Adapted from The Daily Telegraph (05/09/18)

All of these external changes occurred after the publication of Domino's 2017 financial accounts. 25 Financial data relating to Domino's for 2016 and 2017 is shown in **Tables 1, 2 and 3**.

Excerpt from Domino's income statement (year ended 31 December 2017)

	£m
Revenue	474.6
Cost of sales	(280.7)
Gross profit	193.9
Expenses	(118.4)
Operating profit	75.5
Non-operating income	5.7
Profit before tax	81.2
Tax	(14.6)
Earnings per share	13.8 pence
Dividend per share	5.25 pence

Table 1

Source: Domino's Pizza Group plc, Annual Report & Accounts 2017

Excerpt from Domino's statement of financial position (as at 31 December 2017)

	£m	£m	£m
Non-current assets			
Intangible assets	114.2		
Property, plant & equipment	109.4		
Other ¹	70.3		
			293.9
Current assets			
Inventories	8.4		
Trade and other receivables	48.7		
Cash and cash equivalents	29.9		
			87.0
Current liabilities			
Trade and other payables	(86.4)		
Other ²	(48.9)		
			(135.3)
Net current assets			(48.3)
Non-current liabilities			(181.1)
Net assets			64.5
Total equity³			64.5

¹ Includes investments

² Includes financial and tax liabilities

³ Includes share capital of £2.5m

Table 2

Source: Domino's Pizza Group plc, Annual Report & Accounts 2017

Domino's financial ratios for the year ending December 2016

Current ratio	0.89
Gross profit margin	40.2%
Net profit margin	23.0%
Return on capital employed	48.3%
Gearing ratio	37.7%
Creditor turnover period	100 days
Stock turnover period	15.7 days
Earnings per share	13.1 pence
Dividend per share	4.5 pence

Table 3

The delivery of pizza makes up 27% of the UK home food delivery market and Domino's is keen to use technology to improve customer service. It wants to make ordering quick and easy. One example of this, launched in the third quarter of 2018, is technology which allows customers to see exactly where their delivery is, using a GPS tracking system. The continued growth in online sales in the UK now accounts for 79% of Domino's total sales.

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After opening a record 95 UK stores in 2017, the company planned to open only 60 new stores in 2018, saying:

"The slowdown in our expected rate of growth reflects an expansion strategy that is increasingly focused on the development of smaller and medium-sized franchisees, where we see strong demand for store openings."

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91% of Domino's stores are operated by franchisees (see Extract B).

Extract B – How Domino's franchising works

Domino's is made up of ambitious franchisees who recognise the unlimited potential of our brand. We choose our franchisees carefully for their commitment and entrepreneurial approach. Franchisees sign a 'Standard Franchise Agreement' for each store.

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We work closely with franchisees to choose the right sites and sell them our fresh pizza dough, as well as other food and non-food items. We support our franchisees to operate profitable businesses, whilst ensuring our high brand standards are maintained at all times.

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We charge our franchisees a royalty fee of their sales. We invest in our digital customer-facing platforms, which makes ordering easier, drives higher loyalty, frequency of purchase and increased order values. All our franchisees contribute to a marketing fund, and we recommend a range of advertising and promotional activity to help sales.

*Source: Adapted from <https://corporate.dominos.co.uk/how-franchising-works>
(accessed 06/09/18)*

There were reports during 2018 of increasingly poor relationships between franchisees and Domino's chief executive, David Wild. Mr. Wild denied he was at fault, insisting that the firm has a 'strong and stable leadership'. Some franchisees complained they were under pressure to open more stores in existing locations. The most powerful franchisees set up the 'Domino's Franchisee Association' to give them greater negotiating powers. One business analyst said:

"We appreciate relationships between franchisor and franchisees can go through difficult times but...the formation of this association appears to be much more serious. Why is this happening now if things are as positive as the company has led us to believe?"

Domino's wants its 35 000 team members (who are not referred to as employees, due to the franchise arrangement) to rise quickly into positions of responsibility, learning the skills required to lead and inspire a team. The business aims to achieve this via its 'TeamSkills' programme (see Extract C).

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Extract C – Domino's TeamSkills programme

TeamSkills is a leadership programme designed to help people gain the team skills and training they need to become a great leader.

At Domino's, we recognise the importance of investing in the next generation of leaders. We want to help people have a better future, which is why we're making our training and development materials available for everyone to learn the lifelong skills needed to become a successful team leader.

Our TeamSkills programme offers people hints and tips for on-the-job training from Domino's colleagues and external experts, as well as downloadable workbooks covering the five basic principles we believe contribute to successful leadership:

- Influencing and inspiring team members
- Creating an ambitious and high-performing team
- Transparent and open communications
- Motivating team members to raise their game
- Effective decision-making and problem-solving

Domino's is a business where ambitious people can succeed. We are proud of the fact that over 80% of our managers started life as delivery drivers or pizza makers. We plan to open new stores across the UK, so there are plenty of opportunities to share in our success and become part of the Domino's family.

Source: Adapted from <https://corporate.dominos.co.uk/about-teamskills> (accessed 06/09/18)

All data was correct at the time of writing (November 2018)



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