

# Operations Management

11 marks

## AS Paper 2 2019

### 2 Too Tasty (TT)

TT is a brand of vegetable chips (crisps) owned by a large public limited company. The vegetables are thinly sliced, cooked, flavoured and then packaged in the TT factory. The factory uses flow production with a different variety of vegetable chips made each day. The factory runs for 24 hours a day, 5 days a week. TT's varieties and some market data is shown in Table 2.1.

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**Table 2.1: Varieties and market data of TT's vegetable chips**

Variety	Annual sales (million units)	Estimated price elasticity of demand
Beetroot	2	-0.9
Parsnip	3	-0.8
Potato	6	-1.1
Carrot	3	-1.5

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All the varieties are sold at a price of \$1 per unit. TT branded products have a high profit margin.

The owners of the TT brand would like to develop a new variety to expand the product portfolio. This new variety would be targeted at parents as a lunchtime snack for their children. The Marketing Director has been told to do some market research into potential new varieties of chips.

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A large supermarket group would like to start a joint venture with TT. The supermarket wants to buy TT's vegetable chips, but branded with the supermarket packaging. If the directors of TT agree, this is expected to increase TT's annual sales by 25% and improve the cash flow of the business. However, the joint venture would mean TT's profit margin for supermarket branded chips would be lower than TT's branded chips. The manager at the factory where TT's vegetable chips are produced also has other concerns about the joint venture.

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(d) Evaluate concerns that the factory manager might have about the joint venture between TT and the supermarket group. [11]

## **Solution**

TT will produce more crisps for the supermarket to sell. This may mean that TT has to open the factory for six days a week instead of five. This will increase TT's costs. With a lower profit margin, TT may make a loss from this joint venture. It may also mean that TT does not concentrate as much on its branded crisps because they are making ones for joint venture. This may mean that TT cannot produce the new variety. This might lead to less sales in the future, which may damage TT's profit. The biggest concern is likely to be about having to open an extra day each week which will mean more strain on the machinery. However, in the long term a reduction in profit could be more of a concern, especially if it leads to the business shutting down.

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