HKDSE 2012 2B Q6

1. Mr Li is an experienced chef who has worked for several five-star hotels in Hong Kong. Two years ago, Mr Li established a **French restaurant** called Platine in Tsim Sha Tsui. Platine offers a good selection of traditional French cuisine and wines in a spacious environment. As Mr Li likes eating fine food, almost all the ingredients and wines of the restaurant are imported from France.
Platine's profits were satisfactory in the first year after its commencement. However, sales declined and losses were incurred in the last few months. To turn the situation around, Mr Li has employed a management consultant, Mr Sze , to analyse the restaurant 's problems.

After a thorough investigation, Mr Sze thinks that high inventory cost, such as the inventory cost of oysters, is one of the reasons for the losses . The past sales records show that Platine sold 400 dozens of oysters each week. Oysters were ordered in dozens and the ordering cost was $800 per order. The average holding cost per dozen oysters was $16 per week. As oysters are among the favourite dishes provided by Platine, it is the restaurant's practice to order 600 dozen oysters each time to avoid shortages. Hence, many oysters have to be disposed of, leading to an unnecessary cost to the restaurant. In view of this, Mr Sze suggests that the restaurant can adopt the Economic Order Quantity (EOQ) model to reduce its inventory cost.

Mr Sze explains that fluctuations in the exchange rate of the Euro also have a great impact on the restaurant's profits as most of its ingredients and wines are imported from France. He then mentions that hedging is a method commonly used to manage such risk.
Finally, Mr Sze comments that fine food quality and nice dining environment are not enough to keep customers as they consider a lot of factors in making their purchase decisions. Mr Sze suggests that Mr Li should make use of the marketing concept in operating his restaurant and at the same time develop effective marketing mix strategies to enhance its competitiveness.

(a) (i) Explain how the use of the EOQ model can reduce inventory cost. (3 marks)
(ii) Using the EOQ model, calculate the optimal order quantity of oysters (in dozens) for Platine. Show your workings. (2 marks)

(b) Briefly describe two ways to hedge against the Euro exchange rate risk. (4 marks)

(c) Use the case of PIatine to illustrate the meaning of marketing concept. (3 marks)

(d) With reference to the customer decision-making process, outline the steps Platine 's customers should take before they make their purchase decisions. (6 marks)

(e) Other than product, there are three other elements of the marketing mix. Suggest one way in which Platine can use each of these other elements to enhance its competitiveness. (6 marks)

6.

(a)(i) Economic Order Quantity (EOQ) is a model to find out an optimal inventory level so as to minimise the total inventory cost, i.e. ordering cost and carrying cost.

(ii) EOQ = $\sqrt{(2x400x800) / 16}$ dozens = 200 dozens

(b) Buy futures on Euro so as to set a pre-determined exchange rate at the maturity.
Buy call options of Euro so as to set a pre-determined exchange rate at the maturity.
This option will be exercised if the exchange rate at the maturity is above the pre-determined exchange rate.

(c) Marketing concept is defined as an approach to analyse customers' needs with a view to satisfy them profitably. Therefore, Platine should conduct a customer survey on their taste and preference so as to create a new menu to meet customers' needs.

(d) Firstly, customers reorganise their needs that are triggered by stimuli, e.g. feeling hungry.

Secondly, customers search for information from personal sources (such as family and friends) and commercial sources (such as advertising and company website).

Thirdly, customers develop alternatives by choosing several restaurants.

Lastly, customers evaluate the alternatives by comparing Platine with other restaurants having been chosen.

(e) As for price, Platine can adopt competition-based pricing, i.e. setting price based on competitors' strategies, costs, prices and market offerings.
As for place, Platine can provide take-away service.

As for promotion, Platine can give discount coupons to customers after dining so as to attract them to come back again.