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| Charlie Bigham and the £multi-million business  Charlie Bigham started his business in 1998 using £25,000 of his own savings. He had no choice because 10 banks turned him down for a loan. Today he could probably sell the business for £80-£100 million. But he still enjoys his day-to-day involvement – and it’s making enough money to pay himself a £500,000 dividend in 2012, so why not keep going? | Charlie Bigham |

At 28, Bigham had decided to quit his management consultancy job and go travelling with his girlfriend. While in India he decided to work on a business hunch he’d had for some time: that there was a gap for posh convenient meals for 2. When he returned he found work at a high-class delicatessen for four months, to get some insight into customer tastes and behaviours, and practical issues such as food hygiene. In 1996 ‘Charlie Bigham’ Foods Ltd (CBL) started up, consisting of Charlie and a friend. They devised some distinctive recipes and cold-called high-end food stores to push for distribution. At a time when meals for 2 sold for £1.99 or £2.99, Charlie planned to charge £5 - £6. "We were one of the first to make quality ones without anything artificial. This set us apart and made shops interested in stocking us." £60,000 in revenue in the first six months was not enough to pay all the bills, but showed that a niche really existed.

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| http://images.thegoodwebguide.co.uk/review-images/charlie-bighams-premium-ready-meals.jpg | Over the next few years growth was achieved by progressively stronger distribution – through Waitrose, then Booth’s, then Sainsburys. This meant that Bigham left its earliest stockists behind in pursuit of greater scale. It also put huge pressure on capacity. The business started at Charlie’s kitchen table. As business came in he rented his first factory: 2,000 sq ft in some sheds at the back of a west London trading estate. There, two staff grew to 25. When Waitrose gave him national distribution Charlie built a 10,000 sq ft factory round the corner. It could accommodate 100 staff. | |
| Whereas other food businesses would have wanted to enjoy technical economies of scale by automating the production process, Bigham expands by taking on more staff to hand-make its ever-expanding range of pies and other convenience meals (Charlie doesn’t like the term ‘ready-meals’). By 2005, with Sainsburys tied up, another move was needed to a £2 million, 30,000 sq ft factory designed for 300 staff. Projecting ahead, in 2005 Bigham told the BBC that turnover should reach £50 million by 2012. | | **Charlie’s Biggest Sellers**   1. Fish Pie 2. Lasagne 3. Steak & Ale Pie 4. Moroccan Chicken Tagine |

Because CBL is a private limited company it’s hard to know its exact turnover and profit figures. But Charlie has said one or two things to journalists that help identify some markers. Most notably, he has owned up to the fact that the 2009 recession hit the business hard. Used to 20% annual growth figures, the sudden fall in demand forced a cutback that pushed staff numbers down from 300 to 200, where they remain today.

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| **Charlie Bigham Foods Ltd.** | **Sales turnover** | **Pre-tax profits** |
| Year to August 2010 | £17.5m | £102,000 |
| Year to August 2011 | £19.7m | £975,000 |
| Year to August 2012 | £23.4m | £1,560,000 |
| Year to August 2013 | £30.0m | Not available |

Charlie retains some very clear opinions about business in general and his business in particular. He doesn’t want to aim for the export market because his recipes are fresh, with no preservatives, so long-dated, hard-travelling foods are out of the question. Among his views on business in general are the following:

* ”The only way you can ever set up a successful business is to be lucky... Anyone who says otherwise is just lying”; his lucky break was getting into posh meals just before others saw the opportunity, and just as TV chefs made good food ‘sexy’
* "The day-to-day financial decisions I'm easily bored by, and is best done by someone else. (I like to) focus on the bits of the business I'm really interested in - product development, and the big strategic picture - working out plans for the next three to five years" (Bigham recently appointed a Chief Executive; Bigham is Chairman and Creative Director)
* (The hard bit for a small firm is) "when you reach that crunch point, you know you're having a moment and you decide to stretch to the limit and buy somewhere bigger – that was hard. Each time we expanded it took 18 months, and I've done it three times so far. Cashflow and planning were difficult."
* "out of the 200 staff we have, 150 have worked with us for at least two years, and between 50 and 60 people have been here for five years. Another 10 and 16 have been with us for 10 years. We can only continue to be good by having good people"

**Questions (40 marks; 45 marks)**

1. Examine the role of Charlie Bigham in the success of the business named after him. (8)
2. Explain two probable difficulties for a small business such as Charlie’s in expanding its production capacity from 3,000 to 10,000 sq ft. (8)
3. Examine how Charlie Bigham Ltd adds value by transforming inputs into outputs. (8)
4. Examine the possible problems of matching supply and demand in the early stages of the CBL story. (8)
5. Examine two possible factors that might have caused Charlie Bigham’s business start-up to fail. (8)

**Mark Scheme**

1. **Examine the role of Charlie Bigham in the success of the business named after him. (8)**

**Allocate marks as follows: Knowledge: 2; Appn 3; Analysis 3**

* Clearly he was the inventor, the developer and the driving force behind the business; probably the least important thing was giving his name to it
* He spotted the gap in the market, worked at developing his understanding (at the deli) then took the risk of putting £25,000 of savings into making it happen; the text gives no suggestion that anyone else helped at this stage
* He also brought to the business an obsession with quality on his own terms (fresh, hand-made and no preservatives); this would have been unusual, perhaps unique, in 1996
* Although he now has someone else to run the business day-to-day, he also had that role for many years, i.e. making sure the business ran efficiently)

1. **Explain two probable difficulties for a small business such as Charlie’s in expanding its production capacity from 3,000 to 10,000 sq ft. (8)**

**Allocate marks as follows: Knowledge: 2; Appn 3; Analysis 3**

* Clearly there’s no point in just increasing the space (the land); there’s also a need to increase the other factors of production: labour and capital. In other words extra kitchen equipment, packaging machinery and refridgerated storage units must be bought, plus more vans for distribution; at the same time more staff must be hired and trained
* The first difficulty would be the strain on cash flow created by this expansion; lots more capital is needed just as the production supply process is being disrupted by the changes involved; this would have required expert cash flow forecasting and management
* The second difficulty would be keeping customers happy; just as your output capacity trebles you have a host of new, inexperienced staff who may struggle to meet the quality standards and time deadlines accepted in the past; what if an unhappy Waitrose cancelled their order?! That would trigger a cash flow crisis in itself

1. **Examine how Charlie Bigham Ltd adds value by transforming inputs into outputs. (8)**

**Allocate marks as follows: Knowledge: 2; Appn 3; Analysis 3**

* The process must start with recipes, from which the right quantities of ingredients are bought in; then the staff must prepare the ingredients with as little wastage as possible (e.g. when de-boning a chicken breast); the higher the wastage, the lower the added value
* Having prepared the ingredients the cooking process must be carried out as consistently as possible, both to provide customers with consistently high-quality meals and also – again – to avoid wastage, e.g. a steak pie with a slightly burnt crust might have to be binned
* Ultimately the customer would only be willing to pay twice the normal price for a convenient meal if the quality was unarguable, i.e. not just quality ingredients but a really special taste – which could only come from careful cooking in the kitchens; no wonder Charlie emphasises the importance of his staff

1. **Examine the possible problems of matching supply and demand in the early stages of the CBL story. (8)**

**Allocate marks as follows: Knowledge: 2; Appn 3; Analysis 3**

* The critical supply problems would have been in the lead-up to the 3 big expansions: from kitchen to a 2,000 sq ft unit, then a quintupling of capacity to 10,000 sq ft followed by a further trebling of capacity; as demand rises, it would take a brave boss to anticipate further rises to beyond capacity; so it’s likely that demand exceeded supply for a while during the period in which the new capacity was built; during that period of under-supply CBL would have been vulnerable to competition
* Clearly, boosting the capacity to supply can be enormously expensive (£millions in CBL’s case); and it generates a new, higher fixed cost plateau which could be devastating financially if the hoped-for demand fails to arrive; it’s striking in the text that Bigham told the BBC in 2005 that he anticipated £50m of sales by 2012; in fact sales were less than half that level

1. **Examine two possible factors that might have caused Charlie Bigham’s business start-up to fail. (8)**

**Allocate marks as follows: Knowledge: 2; Appn 3; Analysis 3**

* The two riskiest times for Charlie would have been at the time of start-up (running out of the £25,000 start-up capital) and later, when making a great leap forward.
* In the start-up phase a serious threat comes from lack of focus, e.g. you take your products to a shopkeeper who says: ‘nice, but could be even better if …’ leading you to spend further weeks tweaking the products; decisiveness is a vital entrepreneurial skill; you have to get products out there to generate cash – so get on with it
* In either of the big expansions to its capacity, CBL could probably have gone under if it had been unlucky; as mentioned earlier, the management difficulties of managing a big expansion in staff and equipment could coincide with (or be the cause of) cancellations or cutbacks by major customers; this could drag a business down, even if had all the ingredients for long-term success