COMPANIONS BREWERIES

Companion's Breweries are a household name in the UK brewing industry. The firm produces a large range of beers, which it distributes through its own network of pubs, restaurants, off-licenses and other outlets. The early cozy world of brewing had given way to international competition from the lite beer producers of the US and the lager makers of Europe. Market shares had dwindled fast and just to make life difficult, the Monopolies and Mergers Commission had been looking into the organization of the brewing trade.

In an effort to improve the selection of sites for Companion's pubs in the future, the company has been analyzing data from its existing pubs in an attempt to understand the main determinants of cost and revenue. Exhibit 1 shows details of revenues (in £millions) for 47 of Companion's pubs. The variables relate to data currently available at the head office. This includes information on management and staff quality, both on 9 point scales (MAN and STA), a dummy variable indicating the type of establishment, given that there are two possible styles, a measure of local per capita annual income (INCOME) measured in £000s, and an index of competitor density (COM) measured in numbers per km^2. The type of establishment is scored 0 if it is a conventional type of pub, 1 if it has a modern or unusual theme/ambience. The data is available in the Excel file companions.xls with variable names in the first row.

Examine the data in Exhibit 1 and develop a prediction equation for revenue in the following year.

Set out below are the details of two sites which have been offered to Companion's. You are asked to comment on which, if either, would you recommend that the company should buy.

Site A
An old family pub in the countryside. The owners have run the place profitably for many years and now wish to retire. The competition density is 0.1 (1 pub within 10 km^2), the exterior is pleasant but in need of minor repairs and re-thatching. The staff currently employed lives in the charming village of Grate Haseley and are believed to be trustworthy and loyal. Per capita incomes in the area are low, many of the villagers are agricultural workers with an average per capita income of £8,000 per annum. Estimated running costs including rent are about £0.5m per annum.

Site B
A rare opportunity to purchase and convert a disused inner city church. The marketing department is wild about the idea - which has made a number of people skeptical. There are nine pubs within 10 km^2 and it has been suggested that this level of competition will draw people to the site. Staffing is not thought to be a problem although finding the right manager may be a little more difficult. There is a high concentration of yuppies in the area each with an average per capita income of £14,800. Running costs (inclusive) are thought to be around £2m per annum.

EXHIBIT 1: Details of 47 Pubs in Companion's Breweries Group

Pub Number PUB	Revenue REV	Quality of Management* MAN	Staff Quality* STA	Type of Interior TYP	Per Capita An. Income in Region INCOME	No. of Competitors per km^2 COM
1	4.32	2	8	1	10.0	0.10
2	9.69	6	7	1	12.0	0.68
3	12.56	7	5	1	9.0	0.79
4	16.54	9	6	1	8.3	0.68
5	9.41	3	7	1	7.9	0.96
6	0.49	1	8	0	13.0	0.87
7	6.19	4	1	1	12.9	0.81
8	10.21	6	2	0	8.9	0.42
9	10.30	5	6	0	7.9	0.39
10	9.70	7	5	0	12.3	0.22
11	3.22	2	4	1	11.0	0.94
12	2.14	1	7	1	10.8	0.54
13	4.65	4	6	0	11.5	0.63
14	2.88	2	7	0	10.0	0.78
15	9.41	6	5	1	13.0	0.98
16	7.46	4	6	1	9.8	0.54
17	15.56	9	4	0	8.9	0.67
18	7.43	5	7	0	9.7	0.87
19	11.65	6	2	1	8.9	0.38
20	10.96	7	3	0	9.8	0.68
21	13.22	8	2	1	10.2	0.69
22	5.77	4	9	0	10.6	0.17
23	7.94	6	5	0	13.0	0.56
24	7.18	5	7	0	13.5	0.89
25	9.18	7	8	0	12.0	0.47
26	12.83	9	4	0	12.6	0.68
27	13.96	8	5	1	10.0	0.87
28	11.15	6	6	1	9.0	0.45
29	17.65	9	3	1	7.0	0.65
30	9.38	6	5	0	9.9	0.81
31	8.91	5	4	0	8.9	0.36
32	11.74	8	5	0	9.8	0.54
33	9.22	5	6	0	8.9	0.87
34	7.01	4	6	0	9.7	0.45
35	9.40	5	7	1	8.9	0.67
36	10.44	7	8	1	11.0	0.84
37	5.26	4	6	0	13.0	0.64
38	9.51	6	8	1	12.0	0.74
39	1.64	2	7	0	12.3	0.74
40	2.57	1	8	1	10.3	0.56
41	5.85	4	7	0	10.0	0.74
42	12.29	7	6	0	16.0	0.54
43	6.67	5	6	0	14.3	0.78
44	8.55	6	5	0	12.3	0.64
45	13.11	9	7	0	11.4	0.78
46	3.41	2	6	1	10.8	0.45
47	10.01	5	8	1	8.9	0.34

* 1 = very bad, 9 = very good