Cambridge Assessment International Education

Cambridge International AS & A Level

BUSINESS **9609/32**

Paper 3 Business Decision-Making **October/November 2023**

INSERT **1 hour 45 minutes**

INFORMATION
- This insert contains the case study.
- You may annotate this insert and use the blank spaces for planning. **Do not write your answers** on the insert.

This document has **4** pages.

DC (CJ) 316910/1

Calzado Quila (CQ)

Frederico Lorca set up CQ in 2018 in country P. He had identified a gap in the market for comfortable, fashionable, sustainable footwear made from bamboo and recycled materials. He gave up a senior leadership role with a multinational shoe manufacturer to start CQ. Frederico is very keen to use his previous leadership expertise to lead CQ to success.

To help finance CQ, Frederico used his house as security for a loan. He also persuaded a venture capitalist to take a 49% share of CQ. This finance was used to fund CQ's innovative product development. Frederico worked very hard to identify ethical suppliers of suitable materials and found a shoe manufacturer with high ethical standards in country S. After Frederico had recruited an experienced management team, CQ was able to launch its innovative new shoe range in 2019.

Frederico was determined to inspire CQ's employees and other stakeholders with an effective mission statement. He decided that it should be 'to bring comfort to feet everywhere while working towards carbon-neutral production and distribution.'

Product development

Bamboo is a material that is light, flexible and hard wearing, with a low environmental impact. Bamboo used in CQ's shoes is sourced from the US. CQ's shoes have a high-quality image and are ideal to wear in hot weather. The unique construction of the shoes requires minimal cutting and less energy to produce than traditional shoes. CQ continues to invest in product development and makes changes to its product ranges each year, including improvements in materials and construction. CQ is currently developing a range of running shoes to challenge leading brands in the market.

Marketing

When CQ launched its shoes in 2019, marketing relied on social media and CQ's website. Sales increased rapidly after a film star endorsed the shoes for their comfort and environmental sustainability. Distribution is mainly direct-to-the-consumer with some use of exclusive retailers. Prices are lower than major competitors.

During the pandemic of 2020–21, CQ benefited from increased online purchasing. CQ increased advertising promotion in 2022 and the marketing budget is now 10% of revenue. In 2024 most of the marketing budget will support CQ's main marketing objective to increase sales to the US.

Moving operations

Until 2023, CQ shoes were manufactured by a business in country S. However, because of changing economic conditions and the challenges of outsourcing production to a foreign country, Frederico decided to move production to country P. He identified an unprofitable shoe manufacturer as a target for takeover. The takeover was completed in 2023. During the first six months of production after the takeover the following operational problems were identified:

- output was 120 000 units, 20 000 units below target and below capacity of 160 000 units
- supply chain failures resulted in high levels of inventory being held (see Appendix 1)
- quality control identified 5% of output had defects.

Frederico met with trade unions to discuss these problems. Unions agreed to consider changes in working practices. However, they agreed to the implementation of lean production if supported by investment in workforce training.

Frederico set three operational objectives:

- to increase production to full capacity within eight months while reducing the size of the workforce
- to reduce defective output by 50%
- to increase inventory turnover to five times per year.

Improving sustainability

Frederico remains committed to CQ's original mission. The Sustainability Manager recently completed an environmental audit of CQ operations. Following the audit, he has recommended that CQ should invest $1m to reduce the carbon emissions of CQ. The investment will include the following measures:

- solar panels to produce 70% of CQ's energy supply for its factory
- filtration equipment to recycle water used in production
- insulation to reduce energy consumption.

The investment is supported by Frederico. However, the Finance Manager has produced investment appraisal data (see Table 1.1) and is concerned that the investment will damage CQ's financial stability. Frederico believes that the data does not show the full impact of the investment on CQ.

Table 1.1 Investment appraisal data

	Net savings ($)	Discount factor 6%
Year 1	150000	0.94
Year 2	230000	0.89
Year 3	230000	0.84
Year 4	210000	0.79
Year 5	200000	0.75

Economic challenges ahead

Frederico is concerned that the economic environment will impact CQ's growth. Economists have forecast the following changes in the economic environment:

- depreciation of country P's currency against the US dollar
- an increase in taxation to control the rising inflation rate.

Appendix 1 Extracts of CQ's financial information 2023 ($m)

At 31 August 2023:		Year ending 31 August 2023:	
Inventory (average for the year)	0.13	Revenue	1.2
Non-current liabilities	3.0	Gross profit	0.8
Capital employed	4.2	Operating profit	0.2