Cambridge Assessment International Education

Cambridge International AS & A Level

BUSINESS **9609/32**

Paper 3 Business Decision-Making **February/March 2023**

INSERT **1 hour 45 minutes**

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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. Any blank pages are indicated.

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Free Wheeling Bean (FWB)

Makena Kisii set up FWB in country K in 2016. FWB owns 200 vans from which it sells organic drinks, such as coffee, tea and freshly pressed seasonal fruit juice for customers to take away. Customers can also purchase snacks such as cookies and muffins. Each three-wheeled van has all the equipment necessary for producing hot and cold drinks and selling snacks.

The vans operate mainly in urban locations in country K and serve a variety of customers including office workers, shoppers and people enjoying leisure activities. Each van operates within a specific area. There are significant demographic and cultural differences in country K. Levels of income and unemployment also vary across the country.

FWB is a private limited company. Makena is one of three shareholders, and she is the Managing Director. Makena's brothers are the other two shareholders and are also directors of FWB.

Delegate more responsibility?

FWB has a centralised organisational structure. Makena and the other directors control all key decisions. Each van has a full-time manager and three other employees on zero-hour contracts. Van managers report directly to FWB's directors and do not make decisions regarding pricing, promotion or products. All employees are given extensive training in health and safety and food hygiene. Van managers have competitive salaries, but other employees are paid the minimum wage. Van managers are responsible for ensuring company procedures are followed by employees. They also order inventory from FWB's warehouse and decide the work rotas, so that vans can meet customer demand. Van managers and other employees drive the vans and serve customers.

Coffee beans and other supplies are purchased centrally by FWB. Makena believes this ensures a consistent brand image throughout country K. However, many van managers have requested some control over local promotion, products and where to locate the vans. Makena is concerned about the increasing labour turnover at FWB and the loss of some good van managers in 2022. She is considering delegating more responsibility to van managers.

A new marketing mix

FWB uses the same marketing mix throughout country K. Prices and products are the same in all locations. FWB's objective for 2023 is to increase each van's revenue by 15%. Using past revenue data and market reports, the Marketing Director is considering how price changes and increased promotion might impact units sold and revenue. He estimates that increasing the price of coffee from \$2.00 to \$2.30 will decrease the demand for coffee from an average of 180 to 170 cups per day, per van. He also estimates that the promotional elasticity of demand is 0.8. In 2022, FWB spent \$200 000 on advertising and revenue was \$40.5 m.

The Marketing Director will decide on a new marketing mix next month.

Government legal changes

A new government has just been elected in country K. The government has promised to protect workers' legal rights and increase incomes of the low-paid. The government also plans to protect consumers by increasing regulation of business activities in the food and drink industry. The government minister for the environment has also proposed legal controls to reduce waste from plastic packaging and CO_2 emissions from vehicles. FWB's directors are considering how to prepare for these proposed legal changes.

Improving efficiency

Makena is reviewing operational efficiency at FWB. She is concerned with the amount of waste products, including inventory that has deteriorated, that must be disposed of. However, there have also been occasions when vans have had insufficient inventory to meet demand. FWB has many suppliers and coordinating deliveries is difficult. Makena is considering investing in enterprise resource planning (ERP). An ERP supplier has provided FWB with an estimate of projected net cost savings for a system with an initial capital cost of $650 000. The supplier advised Makena that the ERP system would have a residual capital value of $0 after five years. Table 1.1 gives further details.

Table 1.1 ERP investment appraisal extract

Year	Net cost savings ($000)
1	150
2	175
3	175
4	200
5	200

Financial performance and growth

Makena wants to focus FWB's future growth on expansion to international markets. However, she is unsure how best to progress this strategy, so she has asked the Finance Director to prepare an analysis of FWB's performance to help with decision-making. Selected ratios from his analysis are shown in Table 1.2.

Table 1.2 Selected accounting ratio analysis for FWB

	31 January 2023	31 January 2022
Current ratio	1.3:1	1.3:1
Gearing	45%	35%
Profit margin	5.3%	6.4%
Return on capital employed (ROCE)	4.2%	4.9%
Trade payables turnover (days)	35	30
Rate of inventory turnover	12	14

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