Cambridge Assessment International Education

# Cambridge International AS & A Level

**BUSINESS** **9609/32**

Paper 3 Business Decision-Making **May/June 2023**

INSERT **1 hour 45 minutes**

*0167579560-I*

**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.

DC (PB/GB) 321750/1

## Ossa Valley (OV)

Aluna is a finance graduate who set up OV in 2019 as a private limited company. Aluna is the Managing Director and owns 60% of the shares. The Marketing Director and Operations Director each own 20% of the shares.

OV's mission statement is to 'make the world a healthier place by producing quality food using sustainable methods, working closely with our suppliers and supporting our workers.'

OV produces Greek yogurt and was the first business to sell Greek yogurt in country C, where it is located. The yogurt is promoted as a fresh, superior-tasting organic product. Organic products are produced without using chemical pesticides and fertilisers. The yogurt is manufactured in OV's small factory in country C using the traditional Greek process. Greek yogurt is low in fat and calories but has double the protein of other yogurts.

### Employee relations

OV is committed to providing a safe working environment for all its employees. Wages are above the industry average. OV has won awards for its employee training and its inclusive culture.

Aluna meets with factory workers every week to discuss operational problems and listen to suggestions for improvement. OV's intranet gives employees access to company information and plans. Employees contribute to a digital monthly newsletter which is emailed to everyone in the business. OV has an open-plan office which enables functional team members to speak to Aluna and other directors easily.

### Corporate social responsibility (CSR)

OV gives 5% of its profits to educational projects in low-income countries as part of its CSR commitment. Organic milk is used to produce the Greek yogurt and OV ensures suppliers have policies in place to reduce waste and use renewable energy.

In 2022 the global Greek yogurt market reached a value of $9bn. However, some scientific studies and pressure groups have been critical of the environmental impact of Greek yogurt production. A newspaper article, Destroying the Planet, revealed that:

- Manufacturing Greek yogurt produces a waste product called acid whey which has a devastating effect on wildlife if released into rivers.
- Acid whey is often sold to farmers as food for animals which increases the overall acidity of farmland.
- It takes significantly more fresh water to produce Greek yogurt than other yogurts.

Aluna has called a meeting with directors to discuss OV's response to the growing importance of sustainability.

### Marketing

OV's sales have increased quickly and the OV brand is now well-known throughout country C. Different flavours have been added since 2020 and a range of plant-based yogurts added to the product portfolio. In an interview with the marketing magazine, The Big Sell, OV's Marketing Director commented 'OV has successfully used social media to generate a buzz around our products. OV has targeted health-conscious consumers prepared to pay a premium price for a delicious product. Working with our distribution partners, OV delivers fresh products direct to the consumer.'

Other manufacturers of Greek yogurt have recently entered the market in country C and there is intense rivalry in the market for all types of yogurt. To increase OV's market share, the Marketing Director wants to sell OV yogurts through retailers for the first time. He knows that to be successful, this new distribution channel will require other changes to the marketing strategy.

**Expansion plans**

The addition of a new distribution channel could result in a significant increase in sales. Increasing production capacity will require substantial finance. Aluna wants to change OV to a public limited company. She is confident that OV would attract investors. See Table 1.1 for extracts from OV's financial data.

**Table 1.1 Extracts from OV's financial data**

| | 2023 ($m) | 2022 ($m) |
|---|---|---|
| Revenue | 12 | 10 |
| Profit from operations | 1.3 | 0.9 |
| Dividends paid | 0.1 | 0.1 |
| Current assets | 0.6 | 0.4 |
| Current liabilities | 0.8 | 0.5 |
| Non-current liabilities | 7.0 | 6.1 |
| Shareholders' equity | 3.2 | 3.0 |
| Gearing ratio | 69% | 67% |

The Operations Director has investigated two possible locations in country C to build a highly automated factory. Location X is in a low-income area with high unemployment. The factory would be built on agricultural land. Location Y is in an industrial area near a city with good transport links. Further details are in Table 1.2 and Table 1.3.

**Table 1.2 Information about locations X and Y**

| | Location X | Location Y |
|---|---|---|
| Estimated time to build the factory | 8 months | 12 months |
| Capital cost including land purchase and building | $10m | $14m |
| Average factory wage rates | low | high |
| Availability of skilled factory workers | low | high |
| Expected capacity utilisation within 3 years | 95% | 70% |
| Accounting rate of return (ARR) over 6 years | See Question 4(a) | 15% |

**Table 1.3 Data to calculate ARR of location X**

| | |
|---|---|
| Capital cost Year 0 | $10m |
| Total net cash flow Year 1 to Year 6 (including $6m residual capital value) | $22m |

**BLANK PAGE**