



# Cambridge International AS & A Level

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**BUSINESS**

**9609/03**

Paper 3 Business Decision-Making

**For examination from 2023**

SPECIMEN 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.



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This document has **4** pages.

## Devonice Ltd (DL)

Gabriel Romana founded DL in 2012 in country Y. He used his savings to develop Devonice, a luxury ice cream brand made from natural ingredients. DL started manufacturing ice cream in a small factory in 2013.

### Organisation and growth

DL has grown rapidly. Gabriel has increased the product range with new flavours of ice cream. In 2016, DL opened its second factory and its first Devonice ice cream shop in country Y. At present, most sales are made to supermarkets in country Y. However, Gabriel has plans to open more ice cream shops. He is also considering selling DL franchise agreements to increase export sales. 5

Gabriel enjoys being in control of the business and intends to maintain a centralised structure. Managers of the functional departments report directly to Gabriel and he makes all major decisions. 10

### The production line project

DL has two factories, operating 24 hours a day. In total, there are 5 production lines and 200 workers able to produce 30 million litres of ice cream per year. Capacity utilisation is currently 90%. To increase capacity and flexibility, Gabriel is considering investing in computerised production lines. Gabriel wants this project completed within 20 weeks in time for the summer season. 15

The operations manager has prepared a critical path analysis (CPA) for the project (see Appendix 1 and Appendix 2).

The operations manager is worried about the project. He told Gabriel: 'This new system is complex and untried. I am also worried about delays and the impact on our workers.' 20

Estimated net cash flows of the project are shown in Table 1.

**Table 1: Estimated net cash flows for the new production line project**

Year	Net cash flow (\$m)	Discount factor (8%)
0	(2.5)	1
1	0.5	0.93
2	0.8	0.86
3	1.2	0.79
4	1.5	0.74
5	1.5	0.68

25

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### A competitive market

Devonice is now the market-leading brand in country Y and is exported to 10 other countries. DL's innovative marketing and high quality product have contributed to sales growth. DL targets young adults and has developed a premium brand image. Promotion includes the use of social media, school sponsorship and celebrity endorsement. DL also donates a share of its profits to environmental charities. 35

Market conditions in country Y are challenging. A multi-million dollar advertising campaign by a global ice cream brand has increased competition. DL sales have remained stable but market share has fallen. In response, Gabriel is considering reducing the price of Devonice or increasing promotional spending. The marketing department has estimated the promotional elasticity of demand and price elasticity of demand for Devonice. Details are in Table 2. 40

**Table 2: Estimated data for Devonice**

	<b>Price elasticity of demand</b>	<b>Promotional elasticity of demand</b>	
<b>Action</b>	Reduce price to supermarkets by 8%	Increase annual promotional spending by \$0.5m to \$1.75m	45
<b>Outcome</b>	Demand increases by 10%	Demand increases by 10%	

The marketing manager recommends reducing price to widen the market appeal of the brand and open up new distribution opportunities. However, Gabriel believes this could damage the brand image. In his opinion, increasing promotional spending is the better decision.

**Corporate social responsibility (CSR) 50**

Despite rising incomes in country Y, there is concern about health related problems due to poor diet. In 2020, a pressure group started a campaign to persuade food manufacturers to take greater responsibility for the impact of their products. The group demanded government action to reduce sales of food products high in sugar and fat by:

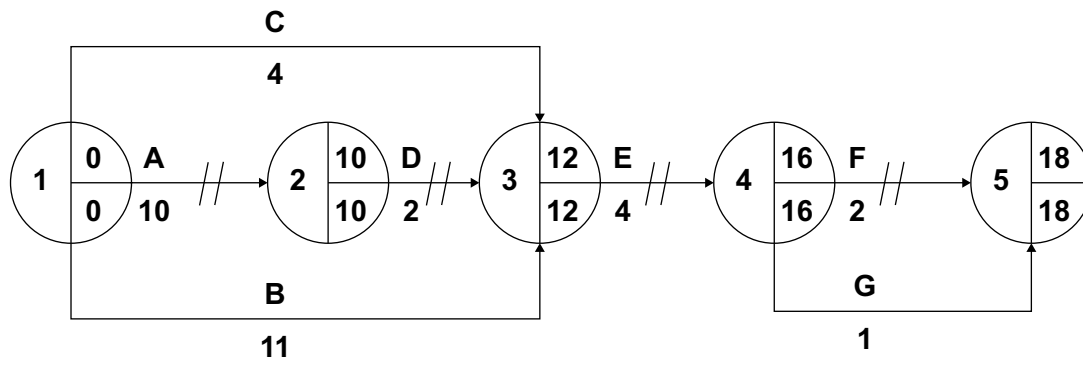
- regulating product labelling 55
- restricting advertising
- introducing a tax on these products.

DL could change ingredients to reduce sugar content. However, Gabriel is worried about consumer reaction. DL is also facing pressure to stop using palm oil because of the loss of rainforest associated with its production. Palm oil helps make ice cream smooth and creamy. There are alternatives DL could use, but these are more expensive. 60

**Appendix 1: Critical path analysis (CPA) for the production line project**

<b>Activity</b>	<b>Description</b>	
A	Run existing production lines at full capacity to increase inventory for changeover	
B	Order and delivery of ice cream equipment	65
C	Order and delivery of packaging equipment	
D	Removal of existing production equipment	
E	Installation of new production equipment	
F	Training of production line workers	
G	Testing of production lines	70

### Appendix 2: Network diagram for the production line project



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