Cambridge International AS & A Level

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BUSINESS **9609/32**

Paper 3 Case Study **February/March 2019**

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READ THESE INSTRUCTIONS FIRST

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PapaYo (PY)

PY going global?

PY operates a number of frozen yoghurt cafés in country S, in South East Asia. The business was founded by Yoon Taemin in 2005. It now faces the most critical decision in its history. The Board of Directors is meeting tomorrow to make a final decision regarding Yoon's proposal to expand the business into the highly competitive North American market. Yoon is proud of the progress his business has made. He has just finished writing the business plan he is going to present to the Board of Directors. A thorough strategic analysis of PY has been completed and Yoon is convinced that PY should proceed with international expansion. Despite the need for substantial external finance, Yoon is confident that his fellow directors will be persuaded once they see the investment appraisal he has prepared.

Maintaining control

Yoon had always wanted to manage his own business. However, after leaving university he worked in the marketing department of a multinational ice cream manufacturer in country S. When working on a marketing campaign he identified a gap in the market for a healthier alternative to ice cream, with a lower fat content. As a result, he left his job and opened his first café, selling frozen fruit yoghurt. The success of this encouraged Yoon to expand PY rapidly. From the start, Yoon fully controlled the development of the business. He focused on developing a strong brand image with a café style environment in which customers can meet and relax.

Organisational structure

PY has always had a centralised organisational structure and all managers have to report directly to Yoon, the Chief Executive. There is little delegation of decision-making to individual cafés. All cafés have to obtain supplies from the central purchasing department. All employment decisions have to follow PY guidelines, including the use of zero hours contracts, as set out by the Human Resources Director.

Closing cafés?

PY has grown steadily and now has 75 cafés in country S. Typically, new cafés return a profit quickly after opening. However, Yoon is worried about the performance of three cafés that were opened in the North East of country S in 2018. The cafés were opened on time, following PY's usual planning approach. The North East of country S is relatively poor, with a higher than average rate of unemployment. All three cafés made a loss in the first year. Yoon has asked the Finance Director for financial data, which is presented in Table 1. Yoon will make a decision after considering this and other information.

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Table 1: Financial data and other information for the three cafés – first year of trading

Totals for all three cafés	Forecast revenue and costs ($m)	Actual revenue and costs ($m)	Notes
Revenue	3	2.25	The average target spend of $6 per customer was not met
Inventory costs	0.5	0.6	Cost of fruit used in yoghurts has increased
Other variable costs	0.9	0.85	• There are 25 employees of which 6 are full time and considered a fixed cost • Rental agreement for properties until end of 2021 • Fixed costs include national marketing
Annual rental costs and other fixed costs	1.2	1.2	

Opening a new café?

PY is continuing to expand in country S. Although the market is increasingly saturated, PY has identified an opportunity in city X. A property in the centre of the city is available to rent. The Operations Director has been asked to prepare a network analysis for opening the café. Yoon wants the café opened in time for the summer season in 10 weeks' time. The network analysis is shown in Table 2 below and Fig. 1 in the Question Paper.

Table 2: Network analysis for opening new café

Activity	Activity described	Preceding activities	Duration (weeks)
A	Negotiate rental agreement	None	2
B	Design interior changes	None	1
C	Building work changes	A & B	4
D	Order equipment and fittings	A & B	1
E	Install equipment	C & D	2
F	Recruit employees	A	3
G	Train employees	F	1
H	Plan marketing	A	2
J	Marketing activities	H	2
K	Test operations	E & G	1

Marketing focus

PY marketing focuses on the health benefits of frozen yoghurts. With a slogan of 'Chill the Fruit', advertising campaigns in health magazines and on television have contributed to PY achieving a market share of 13%. PY's website promotes the company's approach to corporate social responsibility (CSR), highlighting its support for government campaigns for healthy and active living. Sponsorship of community projects is also an important part of PY's marketing strategy. Recent market research has found that customers like the consistent service and product quality across PY cafés. The Marketing Director produces sales forecasts for PY each quarter, based on historical sales data. She uses the moving average method. Appendix 1 and Appendix 2 show the most recent sales data.

Is frozen yoghurt healthy?

There has been a rise in health problems in country S linked to the consumption of sugar. A recent television documentary included an investigation into PY's products. It was critical of PY's marketing of frozen fruit yoghurts as a healthy alternative to ice cream and the lack of nutritional information provided for customers. PY's products were analysed and found to contain high levels of sugar. Following the documentary there was increased negative social media activity directed at PY. Comments were also posted regarding the employment practices of PY, claiming that some employees were paid below the minimum wage. PY has yet to officially comment on the claims made in the documentary and on social media. These issues and how to respond have been added to the agenda for the Board meeting being held tomorrow.

Overseas expansion and Yoon's strategic analysis

Growth is a key corporate objective for PY. Yoon is convinced that PY should enter the North American market. This would involve opening 10 cafés by the end of 2020. Yoon and a small project team have been working on the details for three months. The capital cost would be $20m. Internal sources of finance are insufficient to fund the expansion. Yoon realises that establishing an effective supply chain will be crucial. He will present his business plan to the Board of Directors tomorrow and he is confident that the directors will agree with him. Yoon has recently completed a SWOT analysis, as shown in Appendix 3. An extract from Yoon's analysis of Porter's Five Forces is shown in Appendix 4.

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Appendix 1: Sales data for PY

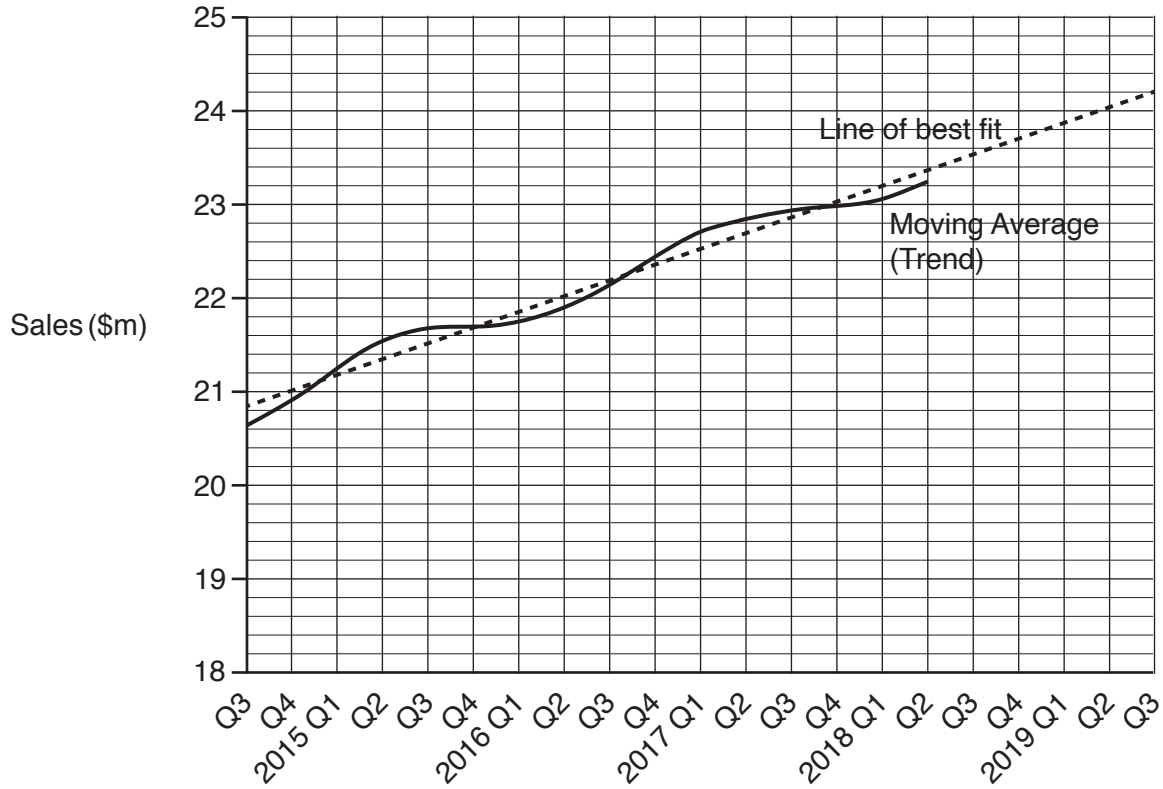
Year	Quarter	Sales revenue ($m)	Quarterly moving average (Trend) ($m)*	Seasonal variation* ($m)	Average Seasonal Variation* ($m)
2014	1	18			
	2	20			
	3	25.1	20.65	4.45	5.42
	4	19	20.90	–1.90	–2.43
2015	1	19	21.26	–2.26	–1.94
	2	21	21.56	–0.56	**4(a)(ii)**
	3	27	21.69	5.31	5.42
	4	19.5	21.69	–2.19	–2.43
2016	1	19.5	21.75	–2.25	–1.94
	2	20.5	21.91	–1.41	**4(a)(ii)**
	3	28	22.14	5.86	5.42
	4	19.8	22.45	–2.65	–2.43
2017	1	21	22.70	–1.70	–1.94
	2	21.5	22.85	–1.35	**4(a)(ii)**
	3	29	22.94	6.06	5.42
	4	20	23.00	–3.00	–2.43
2018	1	21.5	23.06	**4(a)(i)**	–1.94
	2	21.5	23.25	–1.75	**4(a)(ii)**
	3	29.5			
	4	21			

* Figures to 2 decimal places

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Appendix 2: Graph of moving average trend and line of best fit



Appendix 3: Yoon's SWOT Analysis of PY

Strengths	**Opportunities**
• Award winning marketing • Positive customer feedback • Effective senior management • High recognition of the brand in the key 16–34 age group in country S • Reputation for being a socially responsible firm	• North American market, although mature, is expected to grow at 5% per year • Expand product offering to include fruit smoothies
Weaknesses	**Threats**
• Gearing ratio of 65% • High labour turnover • Retained profit in 2017 only $3m	• Major competitor Blue Berry has increased market share in country S to 10% in the last year • Market is saturated in country S • Rising cost of fruit

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Appendix 4: Porter's Five Forces – North American frozen yoghurt café market (extract from Yoon's analysis)

Threat of new entrants	**Buyer power**
• Economies of scale are low • Brand preference for established businesses	• Individual consumers • Easy for buyers to switch brands
Threat of substitutes	**Supplier power**
• Many substitute products are available in cafés • Substitutes priced competitively	• Many independent fruit and yoghurt producers in North America

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