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BUSINESS **9609/32**

Paper 3 Business Decision-Making **February/March 2024**

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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Clean Delivery (CD)

Until 2017 Gianni Rousseau was a marketing executive for a multinational consumer goods company. His wife, Anna, worked in the research and development (R&D) department of the same business. In 2017 they set up CD in country K.

A cleaner brand

Gianni thought there was an opportunity to disrupt the household cleaning product market in country K with a new approach to distribution. CD manufactures and sells detergent which is used to wash clothes. Sales are made to households through a subscription service using postal deliveries to distribute the product. CD claims three main benefits for customers:

- cheaper per clothes wash than leading retail brands
- environmentally responsible as no plastics are used in packaging
- flexible and convenient delivery of the detergent.

Customers control the frequency of their home deliveries online. Payments are taken directly from customer bank accounts for each delivery.

Marketing success?

The household cleaning product market is competitive. Multinationals target the mass market whilst some smaller businesses focus on the environmental market segment. CD made effective use of social media when the company launched its washing detergent. A substantial marketing budget supported rapid sales growth. CD's share of country K's clothing detergent market is currently 5%. CD has an objective to double that within the next two years. CD has benefited from positive publicity in the media and Gianni and Anna have won entrepreneurial awards in country K.

However, some pressure groups have questioned whether CD's products are as sustainable as other environmentally friendly brands. Product tests have also found that CD's products provide less effective cleaning than the market-leading multinational brands.

Developing new products

Since 2018 CD has developed a small range of additional cleaning products. CD aims to ensure that each new product can be delivered easily by post. To ensure products are sustainable CD only uses materials that are not harmful to the environment.

CD plans to increase expenditure on research and development to 3% of revenue by 2025. In a recent interview Anna commented that CD's R&D spending is, in relative terms, double the investment of the leading multinational brand.

Inflation and government economic policy

In recent months CD has experienced an increase in the cost of chemicals and other materials used to manufacture its products in country K. CD sources most of its chemicals and materials locally to reduce the environmental impact. Rising energy prices have also had a significant effect on costs. CD has absorbed these additional costs, but Gianni wants to increase the price of clothing detergent from $4.00 to $4.60 per unit. This would be the first price increase since 2022. However, he is concerned that this will reduce demand. CD's marketing department estimates that the price elasticity of demand for the detergent is –0.6. Current sales are 100 000 units per month.

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In response to inflationary pressures the government has increased interest rates. This has resulted in an appreciation of country K's currency exchange rate. Economists predict this will be a long-term increase in the external value of country K's currency.

International expansion

CD started to export its products in 2022 by setting up a subscription service in country C. Although this is not yet profitable, Gianni and Anna are satisfied with the sales growth. They are now planning to expand further by exporting to three other countries that have similar economies to country K. Gianni has also proposed that CD should open factories in two of these countries.

Organisational structure

CD has a hierarchical organisational structure based on the business functions of marketing, finance, human resources, operations and research. Gianni believes this structure has supported growth by ensuring consistency throughout the business. There are also ambitious plans for further international expansion. Anna now suggests changing to a geographical organisational structure.

Shareholder pressure

CD's expansion has been financed through loans, retained profit and share capital. CD is a public limited company although Anna and Gianni still own 40% of shares. At the recent Annual General Meeting (AGM) Gianni presented CD's ambitious expansion plan which would require additional financing, possibly from external sources.

Gianni argued it was important for CD to expand operations to benefit from internal economies of scale. Some shareholders expressed their concerns that CD should focus more on generating short-term returns to shareholders.

Table 1.1 provides selected financial data and accounting ratios for CD.

Table 1.1 CD's selected financial data and accounting ratios

	30 January 2024 ($m)	30 January 2023 ($m)
Revenue	21.3	18.6
Profit from operations	2.6	2.5
Issued share capital	3	3
Reserves	13.5	12.8
Non-current liabilities	16	15
Current ratio	0.8:1	0.6:1
Earnings per share $	0.6	0.6
Market price per share $	4.00	3.90
Dividend yield %	3%	3.3%

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