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BUSINESS **9609/31**

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

This document has **4** pages. Any blank pages are indicated.

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Gordy Building Supplies (GBS)

GBS sells sand, gravel and other building materials in country Q. GBS is a partnership between Gordy and his Aunt Mo. The building materials are extracted from land owned by Mo. Gordy manages all business functions apart from finance, which is Mo's responsibility. Both are committed to owning and operating an independent business.

GBS has 13 employees who are only trained to extract and prepare materials for distribution to building industry customers. Gordy tells employees exactly how to carry out their tasks and expects them to follow instructions without question. Time spent in meetings is minimised and Gordy believes this improves productivity. Employees have flexible part-time employment contracts. Inventory of extracted materials is low, but GBS is able to react quickly to seasonal fluctuations in demand. GBS is profitable and Gordy is thinking of expanding the business. He believes that country Q's economy will continue to grow by 8% each year if interest rates remain at 5%.

Communication process innovation

Currently Mo and Gordy use paper-based systems to process customer orders. Gordy wants to improve GBS's efficiency. His ideas are focused on a coordinated information technology (IT) system that links customer orders and distribution. This will include:

- a smart phone app to be used by customers to place orders with GBS
- introducing barcodes to enable orders to be tracked.

Investment in new grinding machine

Demand for GBS's products is increasing and output needs to increase. A new machine for grinding rocks into gravel and sand would speed up production and reduce unit costs. It would require a skilled operator. Mo used her experience and data from the machine's manufacturer to prepare discounted cash flows. (See Table 1.1.) The investment will cost $110 000 and will have no residual value after five years. Mo has calculated the total profit will be $45 000.

Table 1.1 Discounted cash flow data for the new grinding machine

Year	Discounted cash flow at 5% ($000)
0	(110)
1	19.0
2	27.3
3	25.8
4	28.7
5	31.2

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Marketing decisions

A recent price change for one GBS gravel product from $90 to $81 per tonne resulted in an increase in demand from 2400 tonnes to 3000 tonnes per month. Table 1.2 shows elasticity of demand information for all industry gravel products that Gordy found in a building trade journal. He is confident he can make some marketing decisions to benefit GBS:

- Reduce the price of all GBS products.
- Increase GBS's promotional spending by 25%.
- Change the product mix to include more high value materials used to build luxury homes.

Table 1.2: Elasticity of demand for all industry gravel products

Income elasticity	Promotional elasticity
1.8	1.1

Possible expansion into new land

A growing economy requires more housing and industry, so increasing the supply of building materials is important. GBS could purchase new land from which building materials could be extracted. The expansion would create new job opportunities. This land is on a steep hillside and is very close to a large village. There have already been protests by villagers who are concerned about pollution, dust and noise.

Gordy thinks the negative effects can be minimised by considering corporate social responsibility (CSR). An example could be to use renewable energy. However, Mo is worried about the cost. A local government official is likely to grant permission for extraction of building materials from this land if GBS pays an incentive. However, paying incentives may damage GBS's reputation.

Before Gordy and Mo make a decision to expand into the new land they will analyse forecast costs and revenue but they realise that profit might not be the most important consideration.

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