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BUSINESS **9609/33**

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.

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Sunil's Clothing Company (SCC)

SCC is a private limited company, owned by Sunil and his family. SCC is based in country Z, an island in Asia. Country Z is a developing economy. It is a popular manufacturing location for 'ready made clothing', which is exported to the rest of the world. SCC has grown quickly since it started in 2010 and now has two large factories. The clothing production work is labour intensive, carried out by mainly female workers using cloth cutting and sewing machines. SCC's clothes are bought in large quantities by budget 'fast-fashion' brands in developed countries, which then add their own labels and packaging. SCC's mission statement is 'reliable quality clothing at the lowest possible prices'.

Sunil also has a small team who produce individual 'bespoke' clothing items, made to specified designs required by customers. These are ordered by consumers in country Z and include outfits for weddings and other occasions. For these items, the emphasis is on uniqueness and quality and SCC is able to charge high prices, as customers can specify exactly what they want and know that their clothes will be 'one-off' designs. Sunil would like SCC to expand production of the more exclusive designs, as he knows that in the mass-produced fast-fashion market it faces increased competition, both from other local firms and from companies based in other Asian countries. Overall capacity utilisation for SCC's two factories is 85% on average, and Sunil is forecasting a 10% increase in sales next year.

External influences

SCC is impacted by changing external factors in country Z and also in the countries where its biggest customers are located. In country Z, inflation and unemployment are both rising and the currency has depreciated by 10% on average against major currencies. In the developed countries where SCC's fast-fashion business customers are based, inflation is also rising and consumers' real incomes are decreasing. There is also increasing consumer concern about unethical business practices used by some fast-fashion suppliers based in developing countries.

Human resource management (HRM)

Sunil values his employees, and their working conditions are better than those of most other workers in country Z. However, the work in SCC factories is repetitive. The hours spent working on sewing machines are long and temperatures are very high. Each worker has a daily clothing production target to meet. SCC pays above the local minimum wage and also provides meals and drinks for employees, taken during their regular breaks. Training is also provided and Sunil is always looking for skilled employees who can be promoted to the team that make bespoke clothing. There is a shortage of employees with these skills and experience.

Product development

SCC has had many enquiries from business customers about whether it can produce clothing using recycled material, reclaimed and processed from clothing that has been thrown away. There are an increasing number of companies that sell this type of cloth, but the costs are at least 50% higher than the usual suppliers used by SCC. Sunil does have worries about the employment practices used by his existing suppliers, as he is concerned that they pay below minimum wage to workers, some of whom are very young.

Sunil is planning to build an additional factory, which will be financed by a bank loan. The expanded bespoke clothing team will be located there, together with additional capacity for the production of fast fashion. SCC is also going to introduce new designs using recycled cloth, which will be manufactured in this factory.

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Table 1.1 Forecast net cash flows for the new factory.

	$ 000
Year 0	($150)
Year 1	20
Year 2	40
Year 3	80
Year 4	100
This investment has no residual value.	

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Price elasticity of demand and income elasticity of demand

Real incomes in SCC's main export countries have fallen by 6% on average, and Sunil has estimated that demand for his fast-fashion clothing has increased by 8%. Sunil has also collected some sales figures, based on average prices, for fast-fashion and bespoke clothing items, as shown in Table 1.2.

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Table 1.2 Data for price elasticity of demand (monthly unit sales)

Tour	Original price	New price	Unit sales before price increase (2020)	Unit sales after price increase (2021)	Price elasticity of demand
Bespoke clothing items	$200	$220	300	285	See 4(a)
Fast-fashion clothing	$5	$6	200 000	150 000	-1.25

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