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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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World Spices Corporation (WSC)

World Spices Corporation (WSC) is based in country X, which uses the dollar ($) as its currency. WSC was started 20 years ago by Max Cole. His daughters Suki and Dasha, together with a board of directors now manage the company. It converted to a public limited company in 2009. The Cole family has a controlling interest, owning 55% of the shares.

WSC imports raw spices from many countries, including the US and India. WSC processes the raw spices into a range of products, including single and mixed spices for cooking and spiced sauces, dips and relishes. Recipes for these products are kept secret. The exact details are only known to Suki, Dasha and the Operations Director. These recipes are important intellectual property of the company.

WSC markets its products as 'fair trade' and publicises that fair prices are paid to spice growers. WSC also claims to monitor working conditions and employment practices of its suppliers. This is difficult due to the fact that growers are in remote locations around the world. The WSC brand name is recognised globally.

Products are sold globally to both food manufacturing businesses and retailers. WSC has grown very fast due to the increasing popularity of spicy food in developed countries. WSC built a new factory to meet this demand. The final stage of spice processing is highly automated, using computer aided machinery (CAM).

Economic environment

Country X's economy is slowly recovering from recession. Economic growth is forecast to be 2% this year and unemployment is falling. The $ in country X has appreciated against other major currencies in recent years. The demand for WSC's products from different countries fluctuates for many reasons, including changes in foreign exchange rates.

Table 1: Annual changes in demand for WSC's products (%)

Area	2018	2019	2020
Europe	+10	+8	+5
US	+14	+9	–3
Asia	+8	+5	–2
Others	+5	+4	–1

Marketing

WSC sells mainly to business customers and marketing communications are all online. WSC uses social media to keep in touch with business customers. Its website publicises products to both businesses and consumers. The website also has a range of recipes using WSC's spices, which are updated regularly to encourage users to visit regularly.

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The ready meals project

WSC's marketing department has investigated demand for 'ready meals'. These are pre-cooked meals that are sold ready prepared and packaged. Customers will be able to heat the ready meals quickly using an oven or microwave. Demand for spicy ready meals is growing quickly, especially in Asian markets.

Reaction to WSC's new ready meals has been very positive in focus group tasting sessions. The factory extension and new production equipment necessary for the ready meals project will cost $1.5m. In addition, WSC's Marketing Director has requested a launch marketing budget of $750 000 to increase customers' awareness of the new products. WSC plans to distribute these ready meals through supermarkets. A coordinated marketing strategy will be needed for the new ready meals. Table 2 shows investment appraisal data for the ready meals project.

Table 2: Investment appraisal data for the ready meals project

Year	Net cash flow $m	Discount factors at 6%
0	(1.5)	1
1	0.30	0.94
2	0.55	0.89
3	0.60	0.84
4	0.60	0.79
5	0.60	0.75

Finance

WSC financed its growth with retained profits and a bank loan of $10m. Dividend payments to investors have remained stable and comparable to companies in the same industry. Suki and Dasha would like to finance the new ready meals project by offering new shares for sale to existing shareholders (a rights issue), instead of more bank borrowing. Financial data for WSC is shown in Table 3.

Table 3: Financial data for WSC

	2019 ($)	2020 ($)
Revenue	21.5m	23.5m
Cost of raw materials	10.0m	11.0m
Direct labour costs	2.6m	2.8m
Marketing and administration costs	1.6m	1.7m
Other expenses	1.0m	1.1m
Operating profit	6.3m	6.9m
Profit after tax and interest	4.8m	5.9m
Non-current liabilities	10.0m	10.0m
Capital employed	24.0m	25.0m
Total annual dividends	3.5m	3.4m
Share price at year end	12.00	11.00
Dividend per share	1.50	1.45

Human resources and operations

Production workers, who maintain the taste and quality of the spice products, are highly skilled and important to the business. They are able to detect small differences in the products by regular tasting. The directors are worried that labour turnover has increased recently. Some experienced employees have moved to companies that offer better chances of promotion.

Suki and Dasha would like to increase employee involvement in order to widen employees' roles and increase labour flexibility. This would be part of a move towards lean production with the aim of making factory operations more efficient.

Raw spices lose flavour if inventory is kept for too long and a large amount of space is needed for storage. The current production system leads to high wastage rates of raw materials.

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Further developments

The directors of WSC would like to expand the company further. There are two possible options. They need to make a strategic choice as it will not be possible to carry out both projects.

Option A

Take over a small fast food restaurant chain in country X and rebrand it as 'WSC street food cafés.' WSC would need to recruit experienced senior staff to manage the street food cafés. They would retain existing fast food chain employees.

Option B

Extend the WSC product range into drinks for the first time. These would include exclusive recipe tea, coffee and chocolate drink mixes. WSC would need to find suppliers of raw materials and build a new production line.

A summary of the information collected so far is shown in Appendix 1.

Appendix 1: Research data for Options A and B

	Option A **Take over a small fast food restaurant chain in country X**	**Option B** **Extend the WSC product range into drinks**
Initial cost	\$3.5m	\$2m
Estimated time for completion	9 months	1.5 years
Main driving forces	• WSC expertise in spice recipes • Growing demand for spicy foods	• WSC expertise in processing spices • Recognised brand name
Main restraining forces	• Highly competitive fast food market in country X • WSC lack of knowledge and experience of running street food cafés	• WSC lack of knowledge and experience in market for drinks • Need to find reliable suppliers
Competitive rivalry	• Low supplier power • High threat of substitutes	• High supplier power • High threat of substitutes
Estimated chances of success	65%	55%
Estimated monetary value over five years	\$5m	\$4m

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