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BUSINESS **9609/32**

Paper 3 Business Decision-Making **October/November 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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Habesha Clean Cooking (HCC)

Abeba graduated with a degree in Emotional Intelligence in Leadership in 2010 and then gained experience as a Human Resources manager in a large corporation. In 2015 she founded HCC, a social enterprise, based in country E in Africa. HCC's mission statement is 'to save the environment one meal at a time'.

HCC's first product, the CookBag, was launched in 2015 and targeted low-income households in rural locations. The CookBag is made of premium recycled materials and allows food that has been heated on stoves to finish cooking without using extra energy. This reduces fuel needed for cooking. By 2024 HCC had sold 250 000 CookBags. HCC estimates this will save 125 000 tonnes of carbon dioxide a year.

Gradual expansion

In 2018, HCC partnered with a university to develop an efficient multi-fuel cooking stove that produces no smoke. Effective operations planning enabled the Wonder Stove to be launched in 2020 on schedule, with no delay to critical activities. It is manufactured in HCC's factory and expansion was financed by bank loan.

Employees matter

Abeba believes skilled employees are central to HCC's success. The 60 factory employees are organised into quality circles and given paid time to meet to consider problems. Abeba discusses HCC's plans regularly with employees. Abeba expects employees to work hard and negotiates their targets annually.

HCC audits employee performance annually. See Table 1.1.

Table 1.1 HCC performance review of employees manufacturing CookBags

	2022	2023	Notes
Output of CookBags	49 700	60 000	Target output for 2023 was 58 000
Average number of employees	7	8	Employees contracted to work 235 days per year
Labour productivity	7 100	**See Q3a**	
Days lost due to absenteeism	30	32	In 2023 the average manufacturing absenteeism rate in country E was 5%

HCC also reviews employee satisfaction regularly and in 2023:

- 80% were very satisfied with their job
- 90% felt that HCC values employees highly
- 85% considered their 5 days annual training to be beneficial

Employee comments included:

- 'Much better employer than my previous company'
- 'Pay is good and working conditions excellent'.

Following the 2023 review, Abeba has decided to invest in new employee facilities including a canteen and a rest room. This will cost HCC $500 000 and cause disruption to production during building work. The Operations Manager has produced a critical path analysis (CPA) for the work and says it will be completed within six weeks. Abeba is concerned that any delay will be costly to HCC but has given permission for the work to start immediately.

New competition

There has been growing interest in the market to supply cleaner cooking stoves to rural communities that lack electricity.

CA, a multinational business, entered the market with an innovative cookstove in 2024. Its cookstove is a direct substitute for HCC's Wonder Stove. CA is a much larger business and benefits from economies of scale. Although CA is not a social enterprise it does have a good reputation for corporate social responsibility (CSR).

Satisfactory profits?

Abeba is satisfied with HCC's financial performance, as the business is profitable and sales are increasing. However, the Finance Manager is concerned with the decrease in profit in 2024. He has prepared financial data for HCC to discuss with Abeba. He wants Abeba to agree to a strategy to increase profitability to secure HCC's future. He thinks that some tough decisions will need to be taken. Table 1.2 shows selected financial data and ratios for HCC.

Table 1.2 Financial data and ratios (financial years)

	2023–24	2022–23
Revenue ($m)	10.8	10.0
Cost of sales ($m)	6.4	5.55
Expenses ($m)	3.9	3.85
Interest ($m)	0.3	0.2
Gearing ratio	70%	60%
Current ratio	1.1 : 1	1.3 : 1
Acid test	0.4 : 1	0.7 : 1
Return on capital employed (ROCE)	3.4%	3.8%

International expansion

HCC uses digital marketing and social media to increase awareness of its products. However, Abeba believes that in rural communities personal demonstrations by HCC's regional sales agents have been critical to success.

Abeba has decided to increase sales in Africa by selling the CookBag and Wonder Stove in country K. She has created an export team to plan this expansion. The objective is to enter the market before competitors in January 2025. If some of the marketing activities are done simultaneously HCC should achieve its objective. The export team is deciding which method of market entry to use.

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