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INSERT **1 hour 30 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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Vegan Ice Cream Enterprise

The background

Divock works on his family's almond farm. The farm produces organic products and has a fair trade certificate. Four years ago, Divock's family started using the almonds grown to make vegan ice cream. They sell the ice cream to local restaurants.

The demand for the ice cream has increased considerably, due to a growing popularity for vegan products. Divock's family now use the farm's entire almond crop to make ice cream, but they cannot keep up with the demand. On one occasion a regular customer placed a large order and the family were forced to explain that they could not supply the full amount. If orders cannot be met, local restaurants will need to find a new vegan ice cream supplier.

Expansion

Divock wants the family to increase the production of vegan ice cream. He has seen a machine which could triple output, although the machine is expensive.

Divock's mother thought that this was a bad idea. Although she realised there could be advantages of increasing output, there could also be problems. Buying a machine would use up the family's entire savings. She would prefer to keep some money because they would need to buy extra land to grow more almonds. Also, with increased output, they would have to comply with more laws and regulations.

Having studied Enterprise, Divock was sure that he could find a solution to these problems. He decided to prepare a financial plan to prove to his mother that expansion was possible.

The planning

Divock first considered the sources of finance available to buy the machine. He wanted to avoid using the family savings, so he considered different methods of borrowing. He researched a bank loan and compared this to leasing the machine from the supplier. Divock used this research to start the financial plan. This plan is shown in Fig. 1.

Financial Plan		
Item	**Cost**	
Machine	US$8000	
Methods of borrowing	**Annual cost**	**Total cost of method**
Taking out a bank loan of US$8000 over 5 years	Interest rate 5%	
Leasing the machine for 5 years	US$2400	

Fig. 1

Divock was worried. Even without completing the calculations for the total cost of each method of borrowing, the expansion would be more expensive than he had expected. Although expanding production could be profitable, Divock knew that his mother would not be willing to take the risk of debt.

One other way to expand the ice cream enterprise would be for it to become a limited company. Divock thought that his mother would not be willing to do this.

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Divock then contacted other local farmers to see if they could supply the extra almonds needed. The farmers were willing to supply them to Divock, but at a very high cost. This could reduce the potential profit made from selling the ice cream.

The solution

Divock read a magazine article about a successful farmer co-operative. The co-operative members were independent farmers who collectively supplied their products to customers. Each farmer had an equal role in decision making within the co-operative, having one vote at meetings. The profits were divided equally between each farmer. The farmers all worked hard for the co-operative as they shared a common interest.

Divock wondered if setting up a local farmer co-operative to make the vegan ice cream would be the solution. A co-operative would have a larger supply of almonds, and the farmers could also each share the cost of the machine. The vegan ice cream enterprise could grow, benefitting all the farmers.

Divock showed his mother the financial plan and the magazine article. She could see the advantages of a farmer co-operative. As a co-operative, the vegan ice cream enterprise could grow with less risk. His mother suggested that they arrange a formal meeting with the other farmers to explain the proposal.

The meeting

Divock outlined his proposal at the formal meeting. Three farmers were interested in forming a co-operative but they wanted to have more information before agreeing to join. Divock suggested that he complete the other sections of the business plan. He could then present this plan to the farmers. Divock and the farmers agreed to meet again in two weeks' time.

Divock and his mother realised they would need some help to prepare for the next meeting.

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