Cambridge Assessment International Education

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BUSINESS **9609/31**

Paper 3 Case Study **May/June 2021**

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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 **8** pages. Any blank pages are indicated.

Peter's Ground Coffee (PGC)

Peter started PGC 15 years ago as a private limited company in country P. Its mission statement is: 'Quality coffee for everyone when they want it'. PGC buys raw coffee beans from wholesalers. PGC roasts the beans and grinds them into powder, which is then packaged and sold as ground coffee. PGC supplies 600 retail outlets in country P, most of which are small businesses. PGC has good brand loyalty and a high but decreasing market share. The market for ground coffee in country P is growing.

Organisation structure

Peter, the Chief Executive Officer (CEO), works with three directors, Purchasing Director, Production Director and Marketing Director. Each of these departments also has a manager and several employees. Many employees have been with PGC since it started and labour turnover is very low. All employees are committed to producing and supplying the best quality coffee.

Barista training courses

PGC would like to offer one-day training courses for baristas (people who make and serve coffee drinks). These courses would provide a formal qualification recognised throughout the industry. Peter explained to the Marketing Director: 'We have the equipment and qualified trainers. It will cost us very little to run courses. Most of the fees we earn will be profit. The courses will appeal to cafés and restaurants that want employees trained to a high standard. We just have to find ways to communicate with this target market.' Peter has asked the Marketing Director to prepare a marketing plan that will bring success.

Information technology and production

Hardeep is PGC's inventory manager. Coffee beans can be stored for a long time, but roasted ground coffee loses flavour and value. Demand for coffee from PGC's customers can be hard to forecast as the timing and quantity of orders varies. All customers want fast delivery of fresh roasted, ground and packed coffee. Hardeep thinks that:

- too much inventory is being held
- too much coffee is wasted by being stored for too long
- future plans for expansion rely on reducing costs.

Hardeep suggests that PGC needs to communicate more effectively with suppliers and customers. He proposes that PGC investigates the purchase of an enterprise resource planning (ERP) programme.

Valuation of coffee inventory

Hardeep knows that valuing inventory is important for PGC. This is because the company stores raw coffee beans and does not sell all its coffee as soon as it is ground. The size and frequency of orders for coffee from customers varies. Hardeep is aware that inventory can be valued in several ways. In the statement of financial position, PGC values inventory by using the net realisable value method if this is less than the original cost of the inventory. At 30 April 2021, the value of total current assets of PGC was $150 000. Table 1 shows some information Hardeep has prepared for a meeting with the accountant.

Table 1: Coffee inventory at 30 April 2021

	Tonnes	Selling price per tonne ($000)	Total cost of selling inventory ($000)
Coffee beans	8	10	0
Packed ground coffee:			
0–6 months old	2	20	0.5
7–12 months old	1	10	0.5
Over 12 months old	0.2	0	0

New coffee roasting machines

PGC is replacing its old coffee roasting machines with more efficient equipment. The two new roasting machines are each twice the size of the present ones. This investment will result in significant spare capacity at current production levels. It will also enable any planned expansion to go ahead with no production constraints. The production manager, a young newly qualified business graduate, has provided the installers with the information shown in Appendix 1. This will enable the installation of the new roasting machines without affecting current production. Peter is demanding that the new roasting machines must be installed within one month. PGC plans to increase marketing communications the week after the new roasting machines are installed.

A new opportunity: opening cafés

The market for supplying ground coffee is increasingly competitive. The directors believe that PGC must enter a new product area in order to survive and grow. Peter tells them: ‘Our first objective is survival. To achieve this, PGC must no longer rely on just supplying retailers with coffee. PGC should use the capacity the new roasting machines will give us and open several cafés selling coffee and cakes.’

Peter’s reasons for this recommendation are:

- diversification would be beneficial
- decision tree analysis shows an expected monetary value of $100 000
- investment appraisal shows an accounting rate of return of 2% and a payback period of 4 years
- a force field analysis looks positive (see Table 2).

Table 2: Force field analysis for opening cafés

Forces for change	Score 1–5 1 = weak	Forces against change	Score 1–5 1 = weak
Need to innovate	2	Start-up costs of cafés	2
Need for new market opportunities	4	Highly competitive market	3
The existing product is a cash cow	3	Organisational restructure required	3
Spare capacity	1	Resistance to change	1
Competition in existing markets	3	New skills required	3

The directors are keen to consider the idea in more detail but are unclear on the timescale involved. They are concerned that opening cafés would mean managing diversification into a completely new product area, using a totally new set of skills and more than doubling the number of employees.

A different option: selling tea

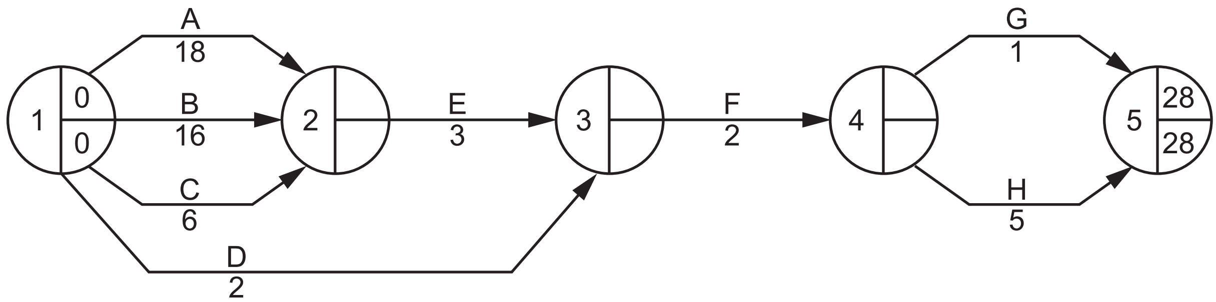
The Marketing Director agreed with the need for a new approach but spoke against opening cafés. She said: ‘I am certain that PGC’s weaknesses and threats in our current market can be overcome by using our strengths to take advantage of an opportunity. We really need to develop a new product. However, opening cafés is too risky. My suggestion is to diversify into supplying tea. This matches our core competencies which focus on marketing hot drink ingredients, not just selling coffee. We can easily and cheaply acquire knowledge of tea supply chains and we already have a suitable distribution network. Initial investment and risk are low and possible returns are high. I am sure that there will be a lower degree of rivalry in supplying tea. We may need to reconsider our mission statement but this is the way forward.’ Table 3 shows some information she gave to the directors.

Table 3: PEST analysis

Political	Economic
• Possibility of a tax on coffee products	• Cost of wholesale tea is stable • Cost of coffee beans is rising • Mark-up on tea is much higher than coffee
Social	**Technological**
• Younger consumers increasingly prefer tea to coffee • Tea is now considered to be healthier than coffee	• Coffee packing machines can also be used to pack tea • Storage methods for tea are rapidly improving

PGC must take some decisions on the way forward very soon.

Appendix 1: Network diagram for installing new coffee roasting machines (activity durations in days)



Activity	Description
A	Order roasting machines
B	Install gas, electricity, water
C	Build additional storage containers
D	Train employees
E	Install one of the new roasting machines
F	Test new roasting machine
G	Remove old roasting machines
H	Install the other new roasting machine and test

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